

Public Utilities

Volume 56 No. 12



December 8, 1955

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PROBLEMS AND PROSPECTS OF GAS SUPPLY

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Rescuing "Downtown" and Its Transit

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Frequent Fallacies about Utility Economics

What Every Little Company Should Do

Competition in the Air-conditioning Industry

Living with Government

Utilities pipeline contractor

Averages 20 feet of trench per minute, digs 2 to 4 jobs per day with each of his Clevelands

1000 feet of complete pipeline construction—trench digging, pipe-laying, backfilling and backfill compaction—is an average day's work for each crew of F. H. Linneman, Inc., pipeline and utilities contractor of Denver. Most of this work is on 2-, 4- and 6-inch pipelines for the many new housing developments in the Denver area.

With a Cleveland Trencher opening up trench at an average rate of 20 feet per minute, a typical Linneman crew will do 2, 3 or 4 complete pipeline jobs in an 8-hour day—jobs that run from 50 to 1000 feet each in length. One of these crews has a record day's production of 7 complete jobs.

Currently operating 7 Cleveland Trenchers, Linneman specializes in utilities work—gas, water and sewer line construction. Equipment-minded and especially maintenance-conscious, he has consistently employed Clevelands ever since he began his contracting business in 1946.



"Maintenance costs on Clevelands are appreciably lower" says owner of 7

Here is what F. H. Linneman has to say about trenchers:

"In the type of work we most generally perform, in the city especially, we have found Clevelands best suited to our operations because of their narrow-width construction, compactness and speed. They enable us to work in close places and keep trenching ahead of follow-up operations, a decided advantage.

"We have employed Clevelands in our work since we began contracting in 1946. We have seven of them at the present time, the oldest being a Cleveland Model 95 purchased in

1948. We have no record of the miles this machine has dug, but feel that it would be a near-record. Our maintenance costs on it have been extremely low.

"Our over-all maintenance costs on Clevelands are appreciably lower than on other trenchers we have operated. This is another reason why we have purchased more Clevelands than any other make. We have also found it easier to train operators for Clevelands than for any other make. Our newest Cleveland, a "240," was delivered only last week by H. W. Moore Equipment Co., here in Denver."

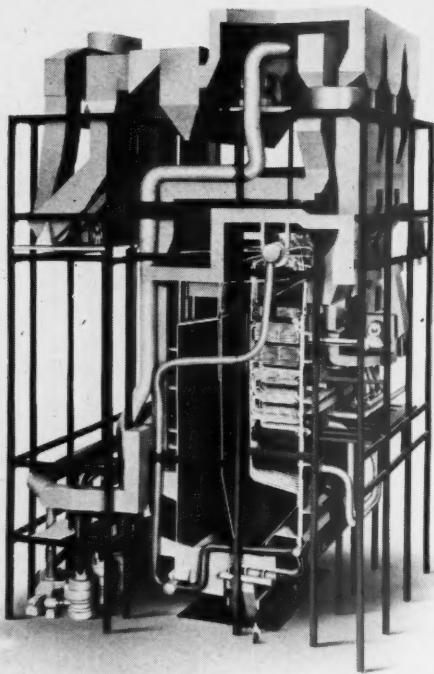
Fast portability of equipment is essential in Linneman's tight-scheduled operations. His Clevelands can be loaded on their low-bed trailers in less than 10 minutes time, ready to roll safely from job to job at legal limit speeds.

THE CLEVELAND TRENCHER COMPANY • 20100 St. Clair Ave. Cleveland 17, Ohio

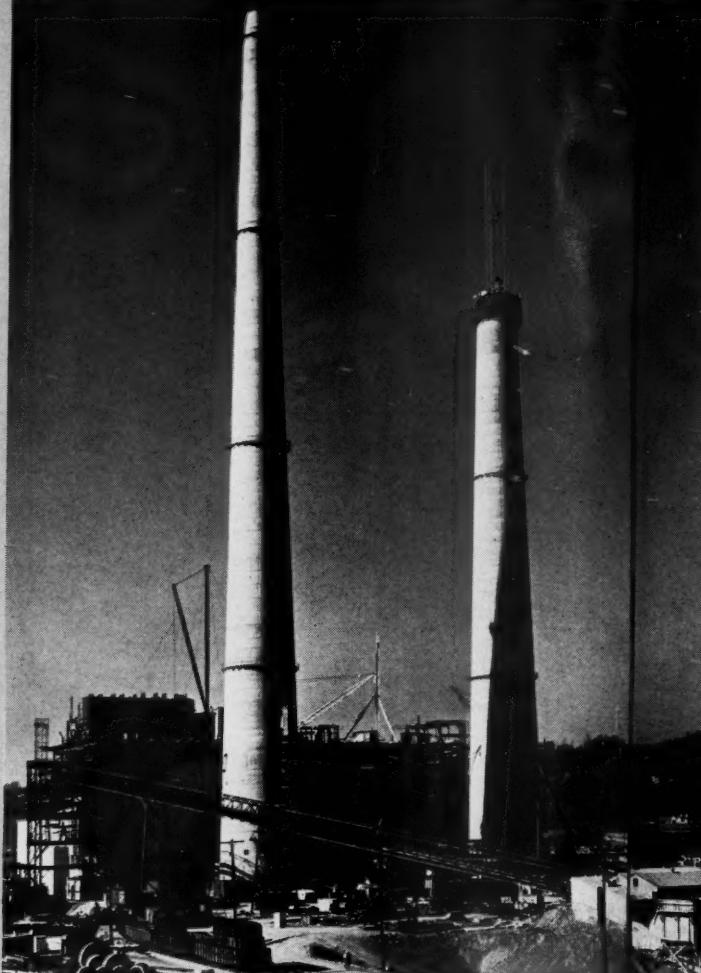


CLEVELAND

11 B&W Boilers help OVEC supply 15 BILLION KWHRS OF POWER FOR ATOMS



Eleven B&W Boilers of the type shown here will generate steam at the two new plants which will supply all electricity required for the great atomic production center known as the Portsmouth Area Project. It is the largest and perhaps most significant single undertaking in the history of the electric utility industry.

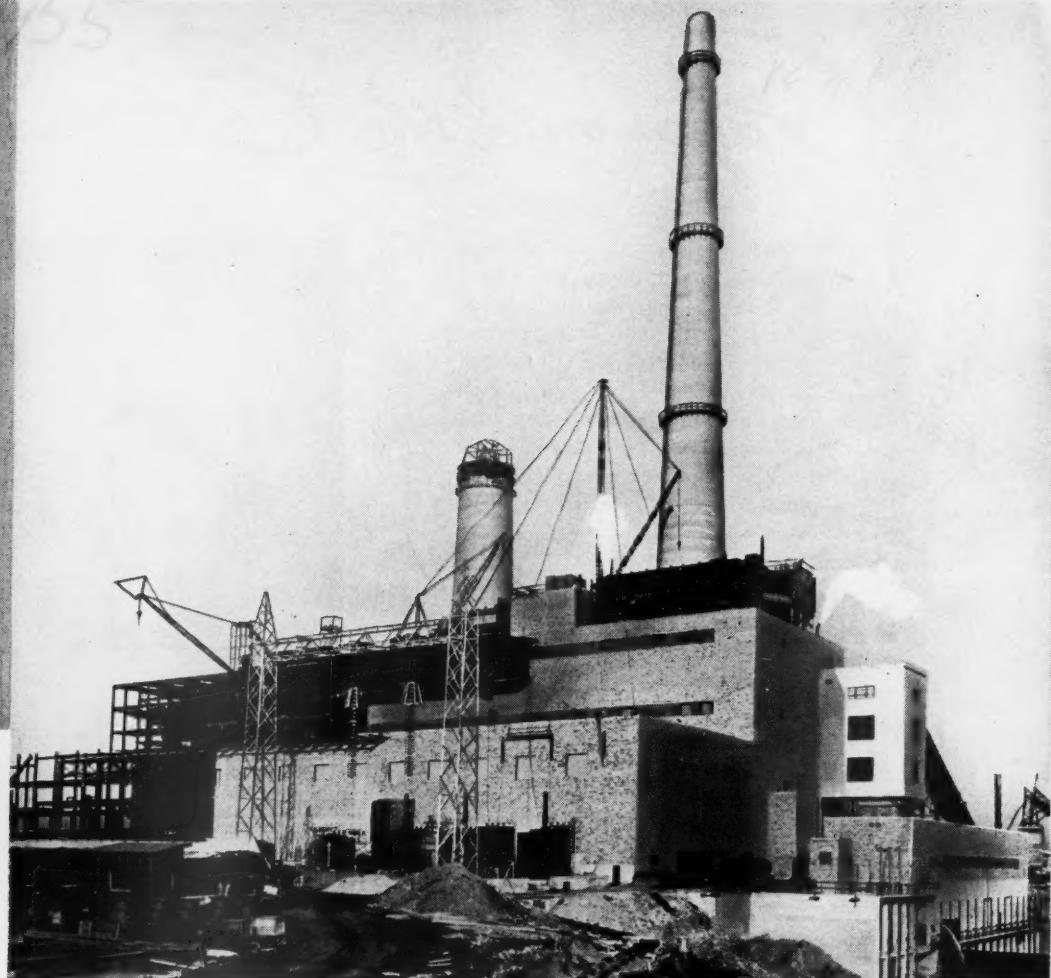


Clifty Creek Plant near Madison, Indiana, is scheduled for completion by the Spring of 1956. Unit No. 1 began delivering power in late January 1955. The Clifty Creek Plant will be owned, operated and maintained by IKEC. Its six units will have a total capacity of 1,200,000 kw—20 per cent larger than the Kyger Creek Plant. American Gas and Electric Service Corp. is the plant design engineer.

Once again America's private electric companies have demonstrated their resourcefulness. By combining their knowledge, skills and resources, 15 prominent utilities have accomplished a job of tremendous proportions quickly and efficiently—a job which would have been too big for any one company to handle.

By next year, two new power plants—now under construction as a result of cooperative planning by the 15 companies comprising Ohio Valley Electric Corp. and its subsidiary, Indiana-Kentucky Electric Corp.†—will be ready to supply more than the 15-billion kilowatt-hours of energy annually required for the process of uranium diffusion at the new Portsmouth Area Project. This huge block of power is greater than that used by New York City and is almost half as much electricity as is produced in all of France.

A number of factors relating to fuel, transportation and transmission were responsible for the choice of sites—both on the Ohio River—for the two power plants needed to meet this great demand. Now par-



Kyger Creek Plant—to be owned, operated and maintained by OVEC—will have five units with a total capacity of 1,000,000 kw. Unit No. 1 began delivering power in late January 1955, a full month ahead of schedule. The last unit is scheduled for completion by early 1956. Sargent & Lundy of Chicago is the design engineer.

tially completed, Kyger Creek and Clifty Creek plants will eventually have a combined capacity of 2,200,000 kw, and while Clifty Creek will be larger, the two plants will be similar.

Kyger Creek's five B&W Open-Pass Boilers will each produce 1,330,000 lb of steam per hr at 2000 psi and 1050 F, with reheat to 1050 F, and six B&W Boilers of the same type and size will furnish steam for kilowatts at Clifty Creek. The utilization of high temperatures, high pressures and reheat at both plants will place them among the most efficient and economical in operation. Together with a comparatively low fuel cost, this high efficiency rate will hold down the ultimate cost of the power produced there.

The choice of B&W Boilers and allied equipment for a project of this importance is an expression of confidence in B&W's contributions to efficient steam generation through intensive research and development covering nearly a century. We will be glad to discuss your boiler needs at your convenience.

†Appalachian Electric Power Company* • The Cincinnati Gas & Electric Company • Columbus and Southern Ohio Electric Company • The Dayton Power and Light Company • Indiana & Michigan Electric Company* • Kentucky Utilities Company • Louisville Gas and Electric Company • Monongahela Power Company** • Ohio Edison Company • The Ohio Power Company* • Pennsylvania Power Company*** • The Potomac Edison Company** • Southern Indiana Gas and Electric Company • The Toledo Edison Company • West Penn Power Company**

*Subsidiary of American Gas and Electric Co.

**Subsidiary of The West Penn Electric Co.

***Subsidiary of Ohio Edison Co.

The Babcock & Wilcox Company, Boiler Division,
161 East 42nd Street, New York 17, N. Y.



G-705

Pages with the Editors

By all advance signs a battle of legislative strategy is shaping up in the next session of Congress, on the question of whether the U. S. Senate will pass the House-approved Harris Bill to exempt gas producers from the full jurisdiction of the Federal Power Commission. According to these advance signs, proponents of the measure hope for a fast getaway and prompt action so as to reach an accomplished fact before the opposition can crystallize.

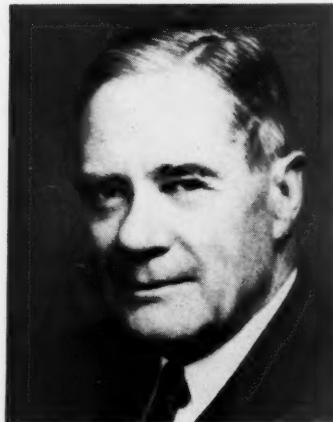
THE opposition tactics, therefore, would obviously be in the direction of a holding operation until the force of their arguments can produce a more consolidated blockade against Senate passage. In the process, however, we have a number of collateral questions which can only stand and wait. The Federal Power Commission, under the obligation of a Supreme Court mandate in the celebrated Phillips decision, must get on with its job of administering its jurisdiction over the gas producers, and of devising rules and regulations for the operation of such controls.

THE gas producers, or a number of them at least, are placed in the difficult position of presenting rate cases with one eye on



© Jean Racine

JOHN F. CHILDS

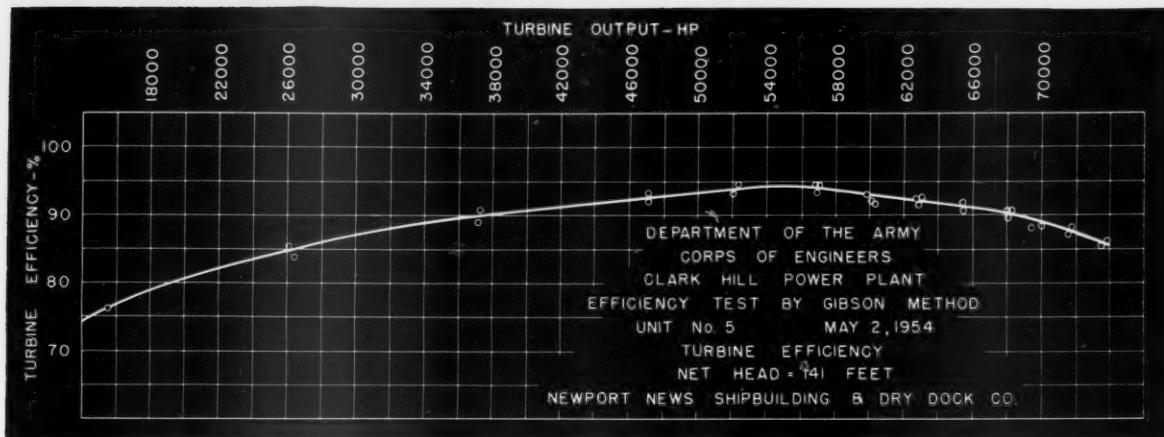
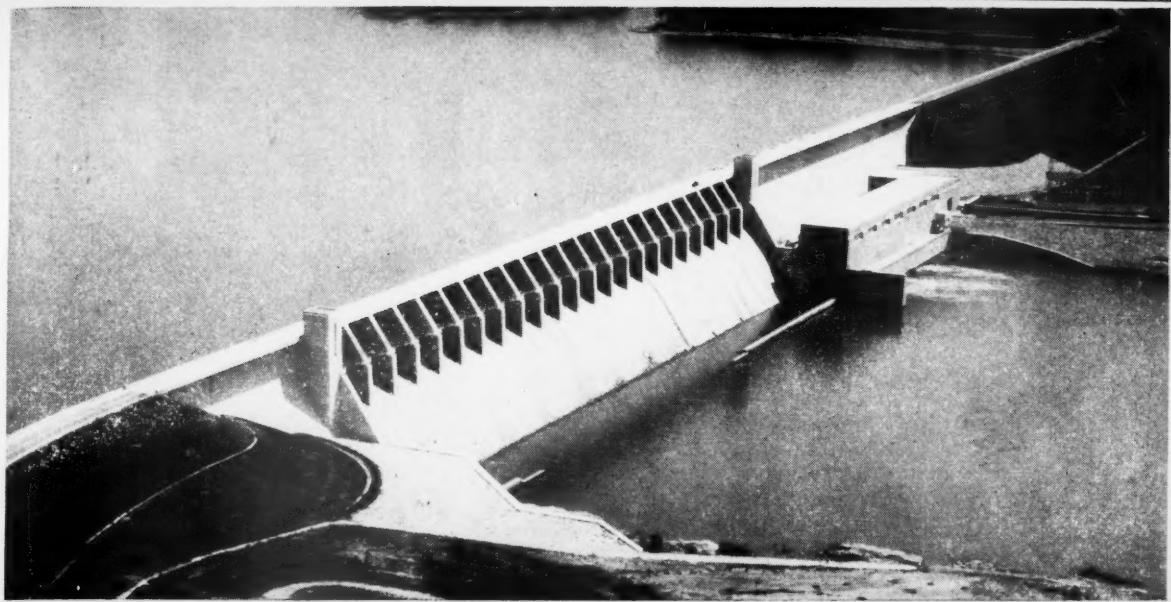


PAUL KAYSER

the coming struggle in the Senate and the other eye on the necessity for acquiring needed additional revenues on a secure and lawful basis.

BUT there is a longer-range problem also involved in this controversy, which may not be so urgent. Yet it may well prove far more important in the long run. That is the question of future gas supply in its relation to competitive fuels. The future of the natural gas business presents a striking paradox of a regulated utility fuel which has been so underpriced in many distribution market areas as to undercut economic competition from unregulated fuels, such as oil and coal. At the same time, and by very reason of the fact that it is at present a preferred fuel, natural gas runs the eventual risk of a diminished source of supply and production with increasing operating costs which might well drive it into the keenest competition with other fuels. The solution to this paradox is a problem of regulatory balance and restraint.

PAUL KAYSER, president of the El Paso Natural Gas Company, is the author of the leading article in this issue, which contains a thoughtful and readable analysis of present and future trends in the eco-



Maximum efficiency of 94.1%

Reflects advanced practices at **Newport News**

THE GRAPH shows performance of a 55,000 horsepower turbine, one of seven such units built by Newport News for the Clark Hill Power Plant (see photo).

Shape of the curve is typical... not exceptional... for Newport News turbine performance. Regular, uniform, showing no-cut-off at full load, it indicates consistent delivery and stable operation.

And especially, experience in design and model testing.

At Newport News, turbine runners are continually being designed and redesigned for improvements in

performance. And often upon receiving a contract for turbines, a model setting is built and complete tests made. So far, Newport News has filled turbine contracts with an aggregate rated output in excess of 7,000,000 horsepower.

Penstocks, spiral casings, valves, pumps, rack rakes and other essentials are also designed and built by Newport News. Our illustrated booklet, "WATER POWER EQUIPMENT," will be sent to you upon request.

Newport News
Shipbuilding and Dry Dock Company
Newport News, Virginia

Engineers... Desirable positions available at Newport News for Designers and Engineers in many categories. Address inquiries to Employment Manager.

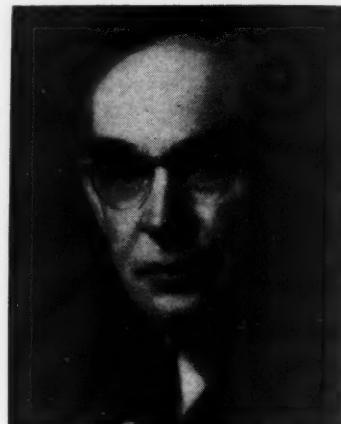
PAGES WITH THE EDITORS (Continued)

nomics of natural-gas supply. A native of Tyler, Texas, and a graduate of Baylor University (AB, '09), MR. KAYSER also obtained a law education from the University of Texas and became principal of Gatesville, Texas, high school (1909-11). After his admission to the Texas bar in 1913, he practiced law in Houston until 1929 as a member of the firm of Huggins, Kayser, and Liddell—with an interim of World War I duty as a Captain of the 7th Cavalry, National Guard. Since 1929 MR. KAYSER has devoted his time to his business interests, especially El Paso Natural Gas Company and Western Natural Gas Company, which he helped organize. He is a past president of the Independent Natural Gas Association of America.

* * * *

THE author of the article "Let's 'Save' Our Economic System" (beginning on page 929), JOHN F. CHILDS, vice president of the Irving Trust Company, has used the word "save" in the best sense of prudent conservation and economy. "Saving" our economic system in this sense is an objective which should appeal to investors, consumers, and regulators. The press and the politicians also have a responsibility in the "saving" process. The tremendous sums of capital which must be raised for public utility enterprises impose an obligation upon all those who have any voice or influence in preserving public utility enterprise to assist in maintaining confidence by fair treatment of investors as well as consumers. Unlike the utility consumer or utility employee, the utility investment cannot go "on strike." It must remain committed in the public service.

MR. CHILDS was born in New York and raised in Connecticut, where he was educated at Trinity College (BS, '31; MS, '32). He is also a graduate of Harvard Business School (MBA, '33) and Fordham Law School, and is a member of the New York bar. He is widely known for his writings on financial economic subjects, and especially public utility security analysis. His article is essentially a restatement of an address made in October before the Indiana Electric Association.



© Chase Ltd., Photo

PHILIP M. TALBOTT

WE see and hear a great deal these days about rescuing "downtown"—meaning the established business sections of our large cities. Each passing day we see a steady trend of residential construction and business to the suburbs and a corresponding deterioration of the "downtown" area. In the article "Rescuing 'Downtown' and Its Transit" PHILIP M. TALBOTT, senior vice president of Woodward & Lothrop's, the noted department store in Washington, D. C., has written a brief message on practical steps and guiding policies which should be employed in preventing the collapse of "downtown" business. It shows how everyone, including the local taxpayer, professional man, and others who may not even be located downtown, has a stake in rescuing the central city area from the blight of lost property values and business volume.

IN addition to his full-time duties as senior vice president of Woodward & Lothrop's, MR. TALBOTT has been exceedingly active in business and trade associations, both in the Washington area and on the national level. He is a director of the Chamber of Commerce of the United States and president of the National Retail Dry Goods Association.

THE next number of this magazine will be out December 22nd.

The Editors



IF DISASTER STRIKES!

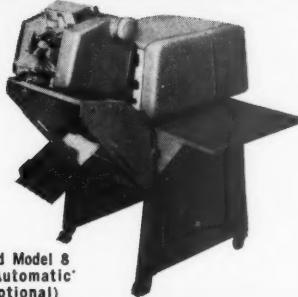
What about your vital records?

Vital public utility records reduced to microfilm can be safely stored out of the way of disaster. If disaster strikes, your records can quickly assess the extent of the damage and evaluate the best means for reconstruction.

Now, Remington Rand offers the revolutionary new Model 8 Film-a-record Camera with optional PB Feeder attachment. This precision unit combines big machine performance with transportability and economy. The PB automatic feeder is the most accurate, high speed feeding device available. It attaches easily and quickly to the Model 8 Camera.

Model 8 is simple to operate... offers all the most modern microfilming advances: 12" throat, 25-1 or 40-1 reduction, 16mm. film or by filming down both sides, 8mm. Full operating features include warning signals, visible film supply indicator, counter and Color-Stat.

Besides record security and protection, microfilm simplifies record retention, saves up to 99% in filing space and speeds reference. All these advantages can be yours when you put microfilm to work for you. From analysis — to planning — to equipment, Remington Rand is the only company prepared to organize and properly install a ready-to-use, disaster-proof record retention system. Start now by learning more about the amazing new Model 8 Camera and other Film-a-record Cameras and equipment in FREE brochure F383. Then, consult a Remington Rand representative on disaster-proofing your records.



Film-a-record Model 8
with "PB" Automatic
Feeder (optional)

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*I want more information on Film-a-record Cameras described in
brochure F383.*



Coming IN THE NEXT ISSUE



CAN A PUBLIC PLANT GO PRIVATE?

This article by Hal H. Dewar, San Antonio financier and former president of the Investment Bankers Association, well illustrates the underlying facts and figures involved in municipal operation of public utility plants. San Antonio's experiment with a municipal power plant is unique to the extent that it happened more or less by default. But there is apparently growing sentiment for a re-examination of an interesting alternative—the possibility of "desocializing" the municipal plant by turning it back to private enterprise. As the experience of utility socialization in Great Britain well demonstrates, it is a difficult trick, if it can be done at all.

IS COST OF CAPITAL THE FAIR RATE OF RETURN?

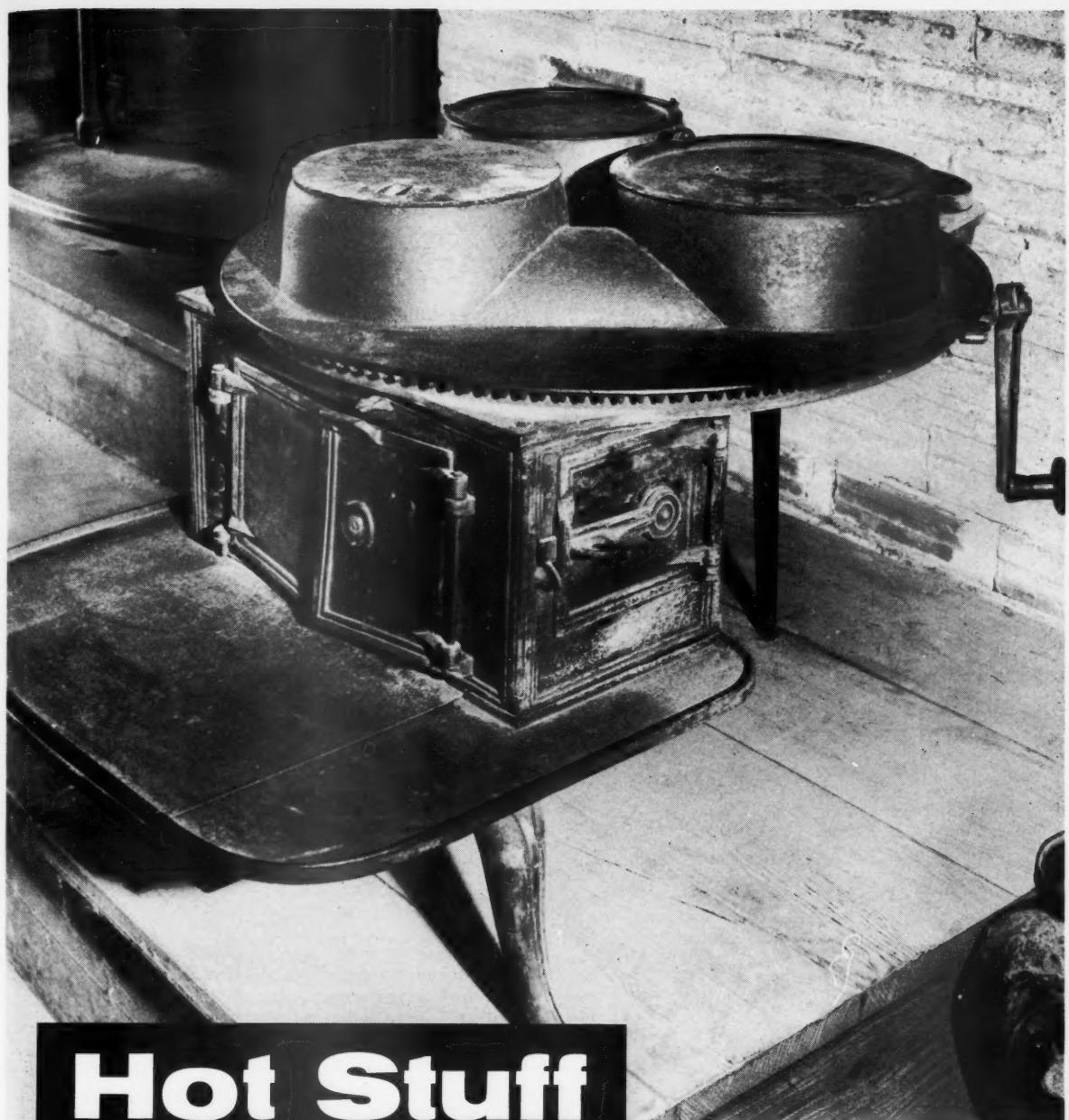
In a dynamic economy, in which investment is being induced by the prospect of a satisfactory future return and a healthy industry, what relation should the fair rate of return bear to the cost of capital? Is it the same thing? Or should a fair rate of return be somewhat in excess of the cost of capital? Herbert B. Dorau, professor of economics of New York University, has written a careful and thoughtful examination of this most important relationship in the life of our public utility industries, now and for the future.

THE BIGGEST TWO PER CENT

Electric power for public service by a public utility is generally traced to the humble beginnings of Edison's original Pearl Street station, which opened in 1882. Since then electric power has assumed a tremendous rôle in the services of American industry and American life generally. But just how much of a rôle has electric utility service assumed—as compared with other forms of power—gasoline and diesel engines, steam, non-utility generation, etc. John A. Waring, Jr., research writer of New York city, has made a study of the basic statistics to determine just how the electric utility industry fits into the nation's total power picture. His conclusions are as informative as they may be astonishing to some readers.



Also . . . Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.



Hot Stuff

KEEPING things hot in "turn" was the idea behind this crude forerunner of the modern, automatic steam table. Figures that must wait their "turn" to be processed are seldom hot—and hot, fresh figures are all important to the operation of modern business. Rate analyses that are weeks and months old won't tell you much. Rate analyses turned

out swiftly and accurately in a matter of days by the "One Step" Method tell you plenty—allow you to plan and *profit*. We would like to send you the story of the "One Step" Method (exclusive with R & S), it's succinctly told in BOOKLET "FBB", a copy is yours for the asking—no obligation, of course.

Recording & Statistical Corporation

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"Your key
to better figures"

Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

THOMAS G. SPATES
*Professor emeritus,
Yale University.*

"The foremost thing is for both employers and unions to treat workers like individual human beings."

HENRY H. HEIMANN
*Executive vice president, National
Association of Credit Men.*

"[Automation] is a blessing to labor, because in the end it will insure more jobs at better wages. The more machines men have to aid them, the better jobs they will have, the higher pay they will be given for their work, and the more new kinds of occupation will develop."

KENNETH R. JOHNSON
*Sales vice president,
Packard-Bell Company.*

"There is a very definite shortage of top executives in the United States today. Business and industry are expanding faster than staffs. There is a great need for new ways of discovering talented men, thus eliminating the increasing practice of raiding the staffs of other companies and luring executives away."

RICHARD L. NEUBERGER
U. S. Senator from Oregon.

"Prophecy is dangerous but one prediction seems reasonably safe—if the power companies succeed in grabbing off such sites as Hell's Canyon, John Day, Pleasant Valley, and Mountain Sheep, the era of abundant and low-cost hydroelectricity for new industrial payrolls is as dead as the hairy mammoth in the Pacific Northwest."

O. B. FALLS, JR.
*Atomic products division,
General Electric Company.*

"If low-cost energy is to determine our economic health, in the next twenty-five years conventional fuels must carry more load than reports indicate they are capable of handling. The hypothetical power systems of the future can be supported only by a limitless new source of energy. We feel that atomic energy represents this source."

FELIX WORMSER
*Assistant Secretary of Interior
for Mineral Resources.*

"Proponents of socialist philosophy of government who demand that government shall harness the water power, drill the oil, mine the coal, or run the railroads often masquerade under . . . soothing terms to obscure their intentions. Whenever I hear the term 'public power' used I know that someone probably means 'socialized power.'"

DWIGHT D. EISENHOWER
President of the United States.

"The peace we want—the product of understanding and agreement and law among nations—is an enduring international environment, based on justice and security. It will reflect enlightened self-interest. It will foster the concentration of human energy—individual and organized—for the advancement of human standards in all the areas of mankind's material, intellectual, and spiritual life."



Why freeze your dollars in communications equipment?

When the Bell System furnishes your communications, you profit from many important advantages.

- 1—Your money is not "frozen" in equipment, but is free to produce income.
- 2—You pay only a monthly charge for services tailored to your exact needs.
- 3—You avoid a large capital investment.

When you use Bell System communications, you eliminate all problems concerning maintenance and obsolescence. Also, you get the benefit of trained personnel, expert servicing and continuing analysis.

If you haven't taken a good look at your communications lately, why not let a Bell System communications engineer survey your needs without cost or obligation. Call your Bell Telephone representative.

BELL TELEPHONE SYSTEM



TELEPHONE

TELETYPEWRITER

MOBILE RADIO

TELEMETERING AND REMOTE CONTROL CHANNELS



NATION'S LARGEST fluorescent street lighting installation is inspected by Minneapolis officials. Flanked by G-E sales manager John Pike and lighting specialist Ernest Wendling, Minneapolis aldermen Frank V. Moulton, George E. Johnson, Jr., and George W. Martens watch installation of Form 206 luminaire.

A G-E PROGRESS REPORT

ON THE RISING

TREND TO FLUORESCENT

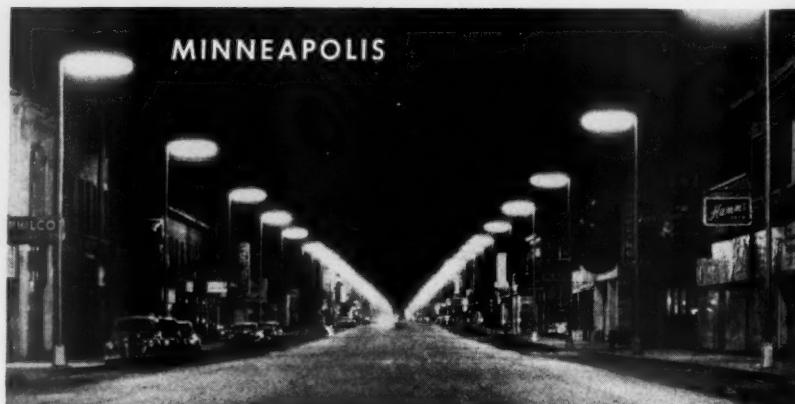
More Progressive Cities Adopt Newest Street Lighting Source

Five years ago General Electric introduced fluorescent street lighting to the United States. Today, thousands of these new luminaires are in service all over the nation. Fluorescent's growth rate is higher than that of any other outdoor lighting source.

What are the reasons for this unusually rapid growth?

IMPROVED VISIBILITY

Doubtless the leading cause of fluorescent's rise to popularity is the great improvement in visibility which it brings about. Some lighting experts say that you see about one third better on a fluorescent-lighted street than on one illuminated to the same level by mercury or filament luminaires. This improvement



3.3 MILES of Lake Street now have maintained illumination level of 1.5 foot-candles from G-E fluorescents. 500 of these units have been placed in service in this important business area. Installation is part of city-wide lighting expansion program.

"ABS
Depa
lumin

DALLAS



"RECEIVED ONLY FAVORABLE comments on the new lights" says J. W. Monk, Dallas public utilities supervisor. Travis Winter, Dallas P&L, worked with Mr. Monk in obtaining decision to install more than 300 fluorescents in downtown Dallas.

is due to (a) reduced luminaire brightness, (b) improved pavement brightness uniformity and (c) excellent color quality from the "cool white" fluorescent lamp.

PLEASANT, "COOL-WHITE" LIGHT

There's no distortion of colors from the "cool white" light of fluorescent lamps. People's complexions and clothes, familiar objects, etc., look the same under this comfortable light as under sunlight.

MODERN APPEARANCE

The distinctive lines, up-to-date design, and functional beauty of the General

Electric Form 206 luminaire make it an asset to any street's appearance.

LOWER MAINTENANCE

The average effective life of a fluorescent street lighting lamp is about two years! The hinged plastic globe enclosing the lamps is shatterproof. Neither the globe nor the light output is unduly affected by sun, rain, heat, cold, dirt, or aging.

LOWER COST

Compared on the basis of judged equivalent visibility with either color-improved mercury or filament, the G-E Form 206

BALTIMORE



EXCEPTIONAL "SEE-ABILITY" characterizes Lexington Street, Baltimore, under its new General Electric fluorescent street lighting. City and Baltimore Gas and Electric Company are also progressively relighting other areas.

fluorescent luminaire costs less than these other systems! While fluorescent equipment and amortization costs usually are somewhat higher, installation costs are about the same and operating and maintenance costs are generally lower.

MORE INFORMATION?

You can get complete information on the Form 206 fluorescent luminaire from your nearest G-E Apparatus Sales Office, agent, or distributor. Or, write Section 452-161, Outdoor Lighting Dept., General Electric Co., 1400 Western Ave., West Lynn 3, Mass.

Progress Is Our Most Important Product

GENERAL  **ELECTRIC**

SAN FRANCISCO



"ABSOLUTELY THE BEST" said S. Ivan Sandberg, of San Francisco's Department of Public Works, about the General Electric Form 206 luminaire. Intersection above is near famed Golden Gate Park.

NEW YORK



"PAVEMENT GLARE IS REDUCED on Lexington Avenue during rainy or foggy weather" according to Armand D'Angelo, N. Y.'s Deputy Commissioner of Water Supply, Gas and Electricity.



© The Columbia Gas System

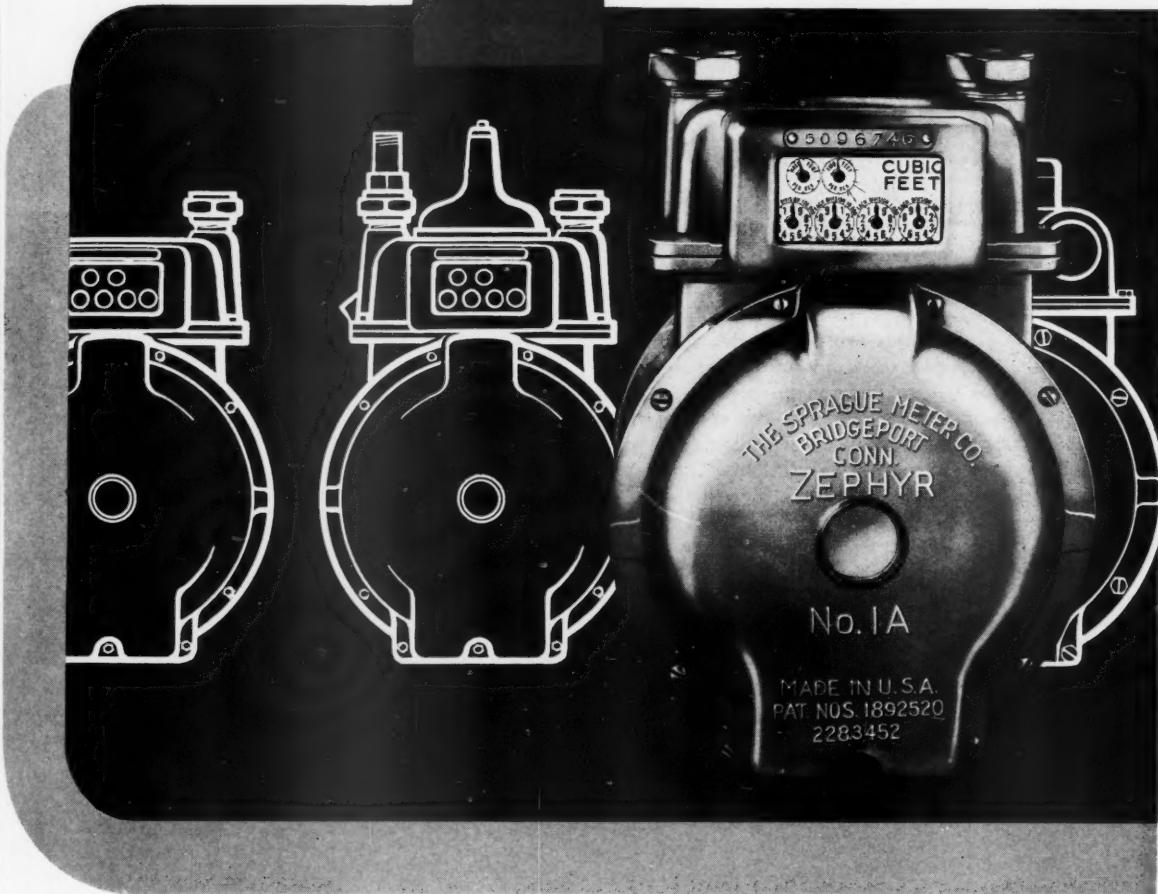
CHARLESTON GROUP: United Fuel Gas Company, Atlantic Seaboard Corporation, Amere Gas Utilities Company, Virginia Gas Distribution Corporation, Big Marsh Oil Company, Central Kentucky Natural Gas Company; **COLUMBUS GROUP:** The Ohio Fuel Gas Company; **PITTSBURGH GROUP:** The Manufacturers Light and Heat Company, Binghamton Gas Works, Cumberland and Allegheny Gas Company, Home Gas Company, The Keystone Gas Company, Inc., Natural Gas Company of West Virginia; **OIL GROUP:** The Preston Oil Company.

Sprague



gas meters

**FOR DOMESTIC AND
INDUSTRIAL GAS
MEASUREMENT
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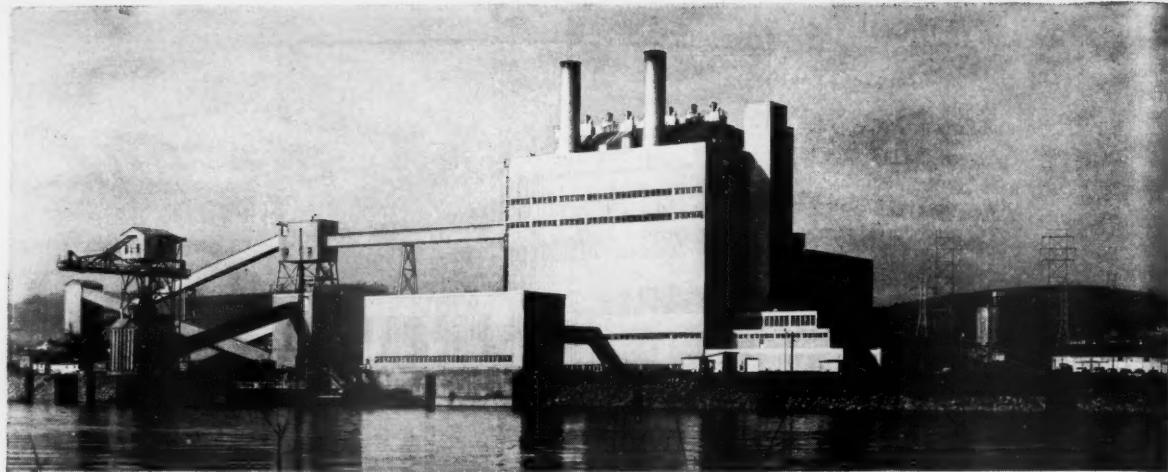


The services of the Sprague
Engineering Staff are at
your disposal at any time.



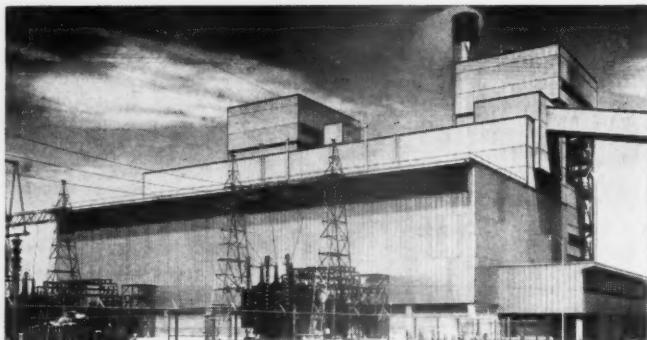
THE *Sprague* METER COMPANY
BRIDGEPORT, CONN.

BRANCH OFFICES IN HOUSTON, TEXAS,
DAVENPORT, IOWA, LOS ANGELES AND
SAN FRANCISCO, CALIFORNIA



Why fine new power plants everywhere have Q-Panel Walls

Builders of new power plants in all parts of the country have specified Q-Panel walls for the following very good reasons: 1. Q-Panels are permanent, dry and noncombustible, yet may be demounted and re-erected elsewhere to keep pace with expansion programs. 2. Q-Panels are light in weight, thus reducing the cost of framing and foundations. 3. Q-Panels have high insulation value . . . superior to a 12" masonry wall. 4. Q-Panels are quickly installed because they are hung, not piled up. An acre of wall has been hung in 3 days. For more good reasons for using Q-Panel construction, use the coupon below and write for literature.

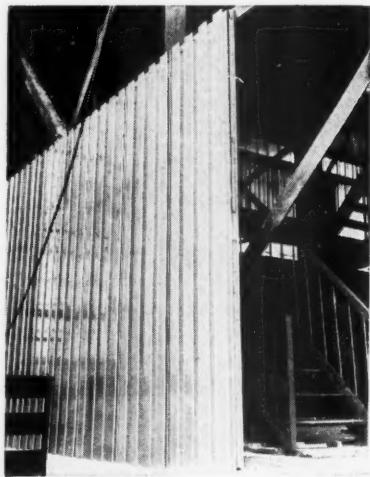


Robertson Q-Panels

H. H. Robertson Company

2400 FARMERS BANK BLDG. • PITTSBURGH 22, PA.
Offices in Principal Cities

Q-Panel walls grace the new Elrama Power Plant (above) near Pittsburgh. It was designed by Duquesne Light Company's Engineering and Construction Department. The Dravo Corporation was General Contractor.



Q-Panel walls (above) go up quickly in any weather because they are dry and hung in place, not piled up.

More than 32,000 sq. ft. of Q-Panels were used to enclose the impressive Hawthorn Steam Electric Station (left) of the Kansas City, Missouri, Power and Light Company. Ebasco Services, Inc., designed and built the plant.



Please send a free copy of your Q-Panel Catalog.

NAME _____

FIRM _____

ADDRESS _____

PU# _____

DECEMBER

PUBLIC UTILITIES FORTNIGHTLY—DECEMBER 8, 1967

YOUR Special Advantage for DECEMBER

... this is the SPECIAL ADVANTAGE STICKER which dozens of companies are using this month on the front cover of Electrified Industry. →



GOOD WILL — you create good will by your words and by lighting the way for others. We wish you every happiness this holiday season, and during the new year.

CONSUMERS POWER COMPANY

Pass to _____

THE SPECIAL ADVANTAGES of electric service include: . . . Convenience . . . Flexibility . . . Instant Starts . . . Economy . . . Reliability . . . Cleanliness . . . Good Regulation . . . Ability to take Overloads . . . and the Cooperation and Advice on Electrical Problems which most power companies offer.

Customers are reminded of you and of the SPECIAL ADVANTAGES of being on your lines. In addition your stickers help them route your messages to additional readers.

Some companies make up stickers which carry their own slogan (a good idea). Others have Reddy Kilowatt remind the readers that electric power is their willing servant.

Power salesmen make friends for your companies and add to your "net divisible." Years ago they decided that they needed help to overcome the effects of the competitive power, diesel-and-steam, agin-the-utilities magazines that they saw on their customers desks. They helped create the picture magazine which tells the true story that electricity, properly used, is worth many times its cost.

They use this magazine to make 21¢ calls for them in between the \$5 and \$10 calls they make in person.

By using Electrified Industry they are able to maintain better-than-ever customer contact and increase the net revenue of the utilities.

ELECTRIFIED INDUSTRY and *Today's Business*

Martin Publications - 20 No. Wacker Dr., Chicago 6

Just Off The Press . . .

CONDUCT OF THE UTILITY RATE CASE

by Francis X. Welch, B. Litt., LL.B., LL. M.

THIS is the companion volume promised in the preface of "PREPARING FOR THE UTILITY RATE CASE," which has met with such wide acclaim during the past year and a half.

It deals with those procedural matters which come after the preparatory stages of the rate case. It presents *for the first time* the *practical problems* of conducting the case—

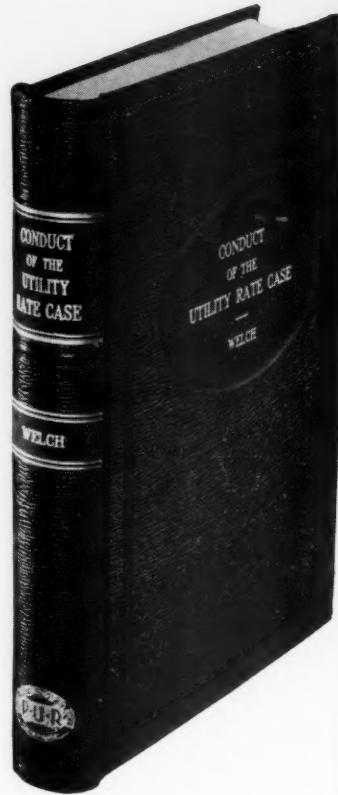
- filing the application
- introducing the evidence
- examining the witnesses, etc.

In fact, it explains the *time-saving* and *effective ways* of making the *step-by-step progress toward the rate decision*, including information concerning the requirements for *appeal and review*.

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- Assisting In The Rate Case Preparation
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- The Attorney-Client Relationship
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- Preparing The Testimony
- Parties—Rate Complaints—Investigations
- Negotiations Before Hearing—Prehearing Proceedings
- Setting and Opening The Hearing
- Examination In Chief
- Cross-Examination and Rebuttal
- Evidence in a Rate Case
- The Case for Complainants
or Rate Increase Protestants
- The Expert Witness
- Motions, Interlocutory Procedures, Arguments, Briefs
and Decisions
- Appeal and Review



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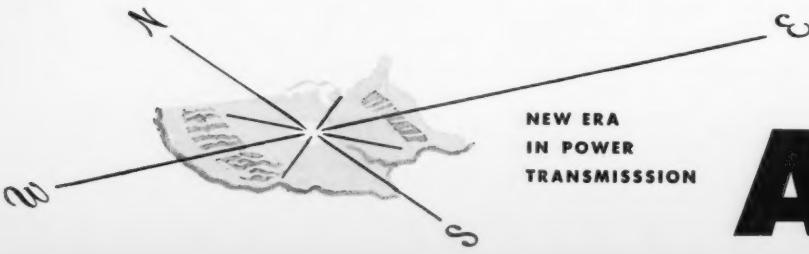
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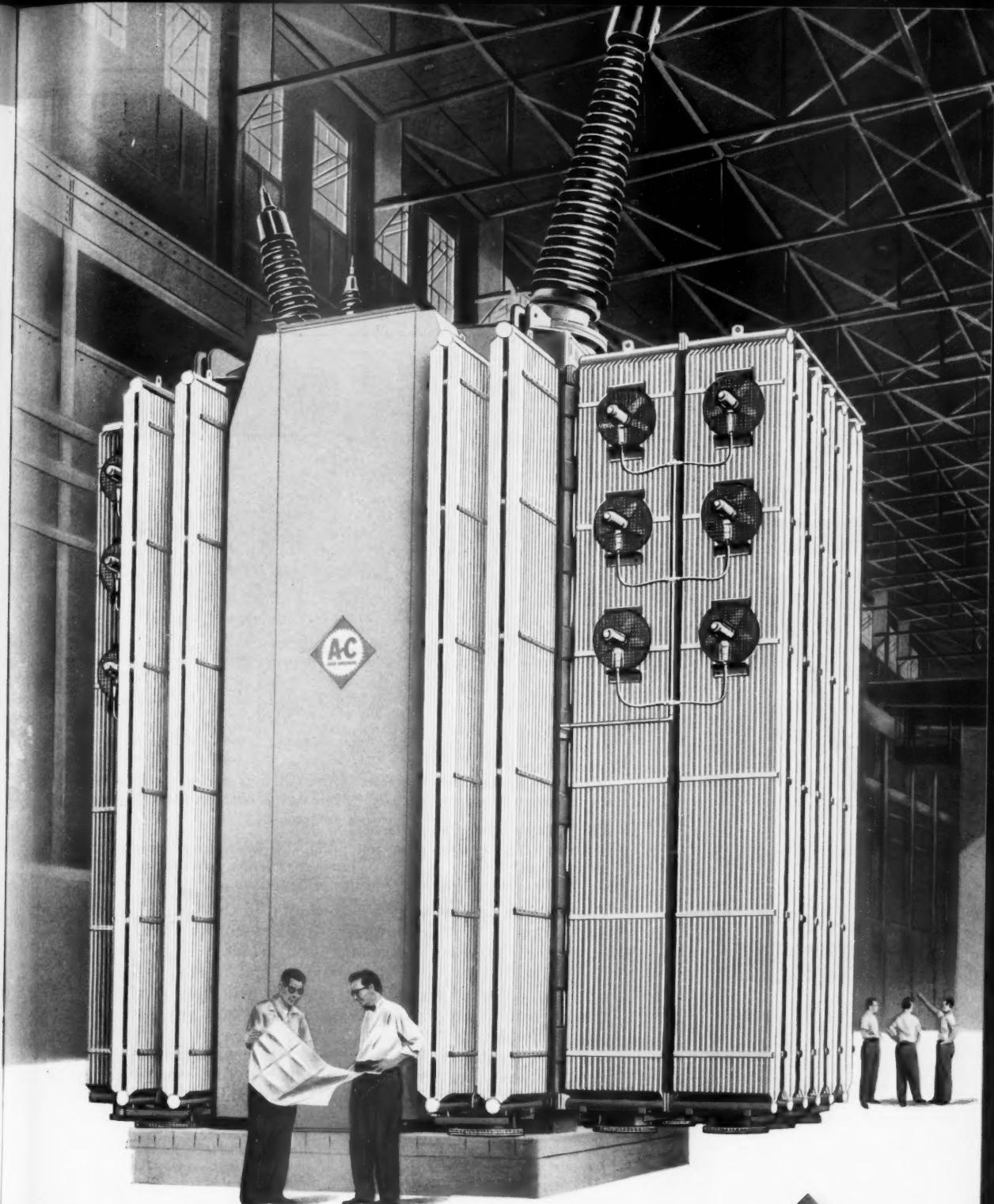
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UTILITIES

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DECEMBER

Thursday—8 <i>Edison Electric Institute-American Gas Association begin joint customer accounting meeting, Atlanta, Ga.</i>	Friday—9 <i>National Association of Manufacturers ends 3-day congress of American industry, New York, N. Y.</i>	Saturday—10 <i>Weed Society of America will hold charter meeting, New York, N. Y. Jan. 4, 5, 1956. Advance notice.</i>	Sunday—11 <i>Southern Gas Association will hold air-conditioning sales conference, Jackson, Tenn. Jan. 13, 1956. Advance notice.</i>
Monday—12 <i>Engineers Joint Council begins nuclear engineering and science congress, Cleveland, Ohio.</i>	Tuesday—13 <i>Pipeline Contractors Association will hold annual convention, Boca Raton, Fla. Jan. 16-18, 1956. Advance notice.</i>	Wednesday—14 <i>Canadian Electrical Association, East Division, will hold meeting, Halifax, Nova Scotia, Canada. Jan. 16-19, 1956. Advance notice.</i>	Thursday—15 <i>Edison Electric Institute, Industrial Relations Committee, begins meeting, New York, N. Y.</i>
Friday—16 <i>American Water Works Association, New York Section, will hold midwinter luncheon meeting, New York, N. Y. Jan. 17, 1956. Advance notice.</i>	Saturday—17 <i>New England Gas Association, Operating Division, will hold meeting, Boston, Mass. Jan. 19, 1956. Advance notice.</i>	Sunday—18 <i>National Housewares and Home Appliance Manufacturers Exhibits will be held, Chicago, Ill. Jan. 19-26, 1956. Advance notice.</i>	Monday—19 <i>Oklahoma Utilities Association, Accounting Section, will hold meeting, Tulsa, Okla. Jan. 20, 1956. Advance notice.</i>
Tuesday—20 <i>National Association of Home Builders will hold convention and exposition, Chicago, Ill. Jan. 22-26, 1956. Advance notice.</i>	Wednesday—21 <i>Industrial Heating Equipment Association will hold meeting, Chicago, Ill. Jan. 23, 24, 1956. Advance notice.</i>	Thursday—22 <i>National Rural Electric Cooperative Association will hold annual meeting, St. Louis, Mo. Jan. 23-26, 1956. Advance notice.</i>	Friday—23 <i>American Management Association will hold general management conference, San Francisco, Cal. Jan. 24-27, 1956. Advance notice.</i>

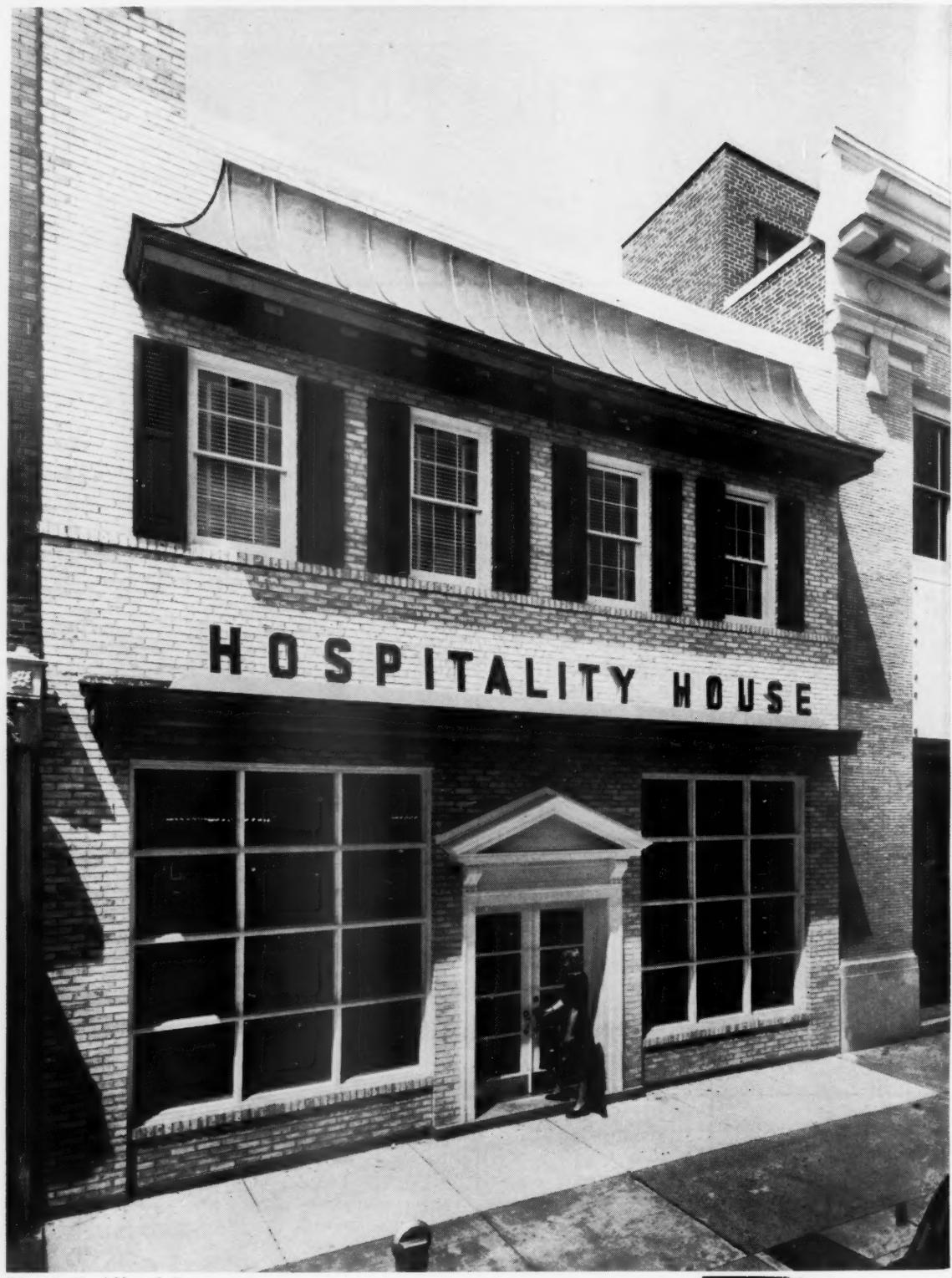


Photo by Fred Hess & Son

South Jersey Gas Company's "Hospitality House"
An interesting experiment in community friendship building.

Public Utilities

FORTNIGHTLY

VOL. 56, NO. 12



DECEMBER 8, 1955

Problems and Prospects of Gas Supply

By very reason of the fact that it is at present a preferred fuel, natural gas runs the eventual risk of a diminished source of supply and production with increasing operating costs which eventually might well drive it into the keenest competition with other fuels.

By PAUL KAYSER*
PRESIDENT, EL PASO NATURAL GAS COMPANY

It must be borne in mind that natural gas is a natural energy resource. The average person thinks of electricity as an energy resource. But it is not. It must in every instance be produced by the use of a natural energy resource such as coal, oil, gas, or water power, or solar energy as developed recently by the Bell Laboratories.

*For additional personal note, see "Pages with the Editors."

So, in studying the question of supply of natural gas, it should always be borne in mind that *it is a basic natural energy resource.*

Use of Energy Determines Our Standard of Living

NEXT, we must bear in mind that the use of our natural energy resources is actually the foundation of our economy and that the extent to which such re-

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sources are used determines our standard of living. One of the most interesting studies in relation to our economy is the history of the development of the use of our energy resources.

MAN power was the first energy resource. Slaves were captured and forced to use their energy to raise the standard of living of the master. Incidentally, this country used approximately 4,000,000 slaves up to only ninety years ago, to maintain the standard of living of the southern half of the nation, and then fought the bloodiest war of history, to that date, to determine whether this form of energy should be permitted in this country or not!

Man power and horsepower, actual horses or other animals, and the power of the wind were the only sources of energy available to mankind, with the exception of a small amount of water power, up to a little over one hundred years ago. The use of the energy of the wind is a classic illustration of the fact that man has progressed, built up the economy in which he lived and raised his standard of living by developing and using the energy resources available to him.

The great cities of Athens, Phoenicia, Carthage, and Venice became great and were the centers of culture for the world because their sailors developed to the highest degree the art of sailing and took advantage of the power of the wind to supply the energy to develop their commerce and to bring to the citizens of these cities the riches of the world, as well as better and finer goods, to raise the standard of living of those participating in the commerce made possible by the use of the natural energy resource of the wind.

Coal, Oil, and Gas Now Principal Sources of Energy

In the last one hundred years in this country, practically all other forms of energy have been displaced by coal, oil, and gas. In 1900¹ coal supplied 88.9 per cent of the energy resources of the nation, gas 3.2 per cent, and oil only 4.7 per cent. Today, gas supplies 25 per cent and oil 41.8 per cent—a total of 66.8 per cent, while coal supplies only 29.3 per cent.

The point to these facts and figures in this discussion is that gas now supplies 25 per cent of the energy resources of the nation.

As stated before, our standard of living is based upon our use of our energy resources. Energy is the most vital and essential component of our economy. The only reason that the consumer will cease to use a given energy is that he has available a better and more efficient resource at a cheaper price—never because he does not need energy. Coal has undoubtedly, in the last fifty years, been supplanted by gas and oil for those very reasons—and not because the consumer has less use for the energy.

His demands for energy have increased immeasurably and undoubtedly will so increase in the future.

Gas Supplies a Basic Need

So, in examining the supply for the long-term future we must consider the fact that gas supplies a basic need in the economy; in fact, at present, 25 per cent of the most basic need of any economy—natural energy resources. This being true, the question of supply is largely a question of comparative price.

¹ *Gas Facts*, table 13 and chart 4.

PROBLEMS AND PROSPECTS OF GAS SUPPLY

Natural gas is found by the same methods of exploration as oil, and it is a fair assumption that if the government does not hamper exploration by price regulation, then so long as adequate supplies of oil are discovered, likewise adequate supplies of gas can be found and made available to the consumer through the great network of pipelines now constructed and that will be constructed in the future.

As the search for oil and gas becomes more and more difficult, as it is doing every day, then the price of both must necessarily increase until it becomes more economical to produce the required energy from coal, at which time natural gas and oil will be supplanted by coal as the master source of our energy resources. This, of course, assumes that no cheaper means will be found in the meantime to produce the required energy. The only other sources before us today are uranium, thorium, and the various devices to use solar energy.

Synthesis Plants at the Mine

EVEN when further explorations for gas and oil have become too costly to be economically practicable, yet, in the judgment of this writer, coal will not be used in the same manner as heretofore. In the first place, the most expensive means to

transport a unit of energy is in the form of coal by railroad in a coal car. The cheapest way to transport a unit of energy for general use throughout the entire economy is in the form of oil in a pipeline. The next cheapest is in the form of high Btu gas at high pressure in a large diameter pipeline.

This would seem to indicate that when the reserves of natural gas begin to decline and the time comes to use coal instead of oil and gas to sustain our high standard of living, plants will be built at the mouth of the mines and the needed petroleum products, including high Btu gas, will be made in such plants and the products transported to market by pipeline.

This is not idle talk. The government and the major oil companies and others have already done the necessary experimental work to know that it can be done. It is just a question of economics when it will be done.

Germany did it during the war. There is now being placed in operation a huge plant near Johannesburg, South Africa, costing approximately \$92,000,000, that will embody the result of the latest scientific development and is designed to supply 4,300 barrels per day of gasoline, 900 barrels per day of other hydrocarbons, and 1,300 barrels per day of chemicals for the



G "It must be borne in mind that natural gas is a natural energy resource. The average person thinks of electricity as an energy resource. But it is not. It must in every instance be produced by the use of a natural energy resource such as coal, oil, gas, or water power, or solar energy as developed recently by the Bell Laboratories. So, in studying the question of supply of natural gas, it should always be borne in mind that IT IS A BASIC NATURAL ENERGY RESOURCE."

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South African market. The operation of this plant undoubtedly will yield exceedingly interesting and useful cost data to help chart the proper course through the maze of economics that must necessarily be encountered in any transition from the use of crude oil and gas as our principal energy resources back to the use of coal for such purpose. The change will not be abrupt but in reason will be gradual, and each step will require the most careful engineering and economic study.

Natural Gas Pipeline—An Efficient Transportation System

IN effecting this change the gas industry has a "built-in" inherent advantage.

The industry as a whole has built and now operates the most efficient and widespread transportation system for the service of a natural energy resource directly to the consumer that the world has ever seen. It is a closed system of continuous movement, from the strata of the earth where nature has stored the gas, to the burner tip where it is consumed, to supply the energy required, whether that energy is used to produce electricity to serve the public, treat steel, smelt copper, or cook your breakfast and heat your home. Moreover, it is instantly available at all times by the simple device of turning a valve.

One does not have to order it. One does not have to go get it. One does not have to wait for it. It does not change cars, change trains, or change planes. It simply moves steadily, continuously, noiselessly, in unseen pipelines buried two to four feet under the ground. It is the safest transportation in time of war and the most efficient in time of peace. This is no mean advantage.

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In addition, this vast transportation system is being amortized over a comparatively short period—"life expectancy," so to speak, based upon natural gas reserves. It has been soundly financed based upon the retirement of all debt within the life of proven reserves.

Under these conditions it seems to be simply up to management to gradually supplement any diminishing supply of natural gas due to the high cost of exploration and discovery by the construction of plants at the mouth of the mines to make synthetic gas from coal. By this means the transition can be gradually brought about and this vast transportation system can be continuously used for the service of the consumer. If coal is to be used to take the place of oil and gas, then this plan is certainly feasible, and, in fact, it would seem to be imperative that we prepare for such eventuality.

Oil Imports, Atomic Energy

ANY discussion of this development, however, must take into account two factors that can materially affect the whole course of events. These factors are imports of foreign oil and the development of atomic energy.

On the question of imports, it appears axiomatic that until we reach the millennium of "One World" we can never afford to become dependent upon foreign oil to the extent of the impairment of our domestic supply of *so vital an energy resource whether such energy resource be supplied by domestic crude oil and gas or from domestic coal.*

If the cost of exploration to find the necessary reserves of oil and gas to sustain our domestic supplies becomes so costly

PROBLEMS AND PROSPECTS OF GAS SUPPLY



The Importance of Price Incentive

"We know from experience that governmental regulation of any activity necessarily slows down that activity. We know that the key to a continued exploration campaign, out to the ultimate discovery of the total quantities economically available to the public, is the field price of gas. And it would seem to follow that whether that price is left to free competition or whether it is regulated by the Federal Power Commission, it must be fixed at such a price as will stimulate and support the necessary aggressive exploration."

that it is economically practicable to supply the demands by synthesis of coal, then certainly it would be suicide in the world as constituted today to forego such domestic means of supply and permit our economy to become dependent upon a foreign product so that we would be pitifully defenseless in time of war.

But in addition to the question of defense, the peacetime economy cannot stand to import more than a comparatively small per cent of its petroleum requirements. We produced 2,557,934,000 barrels of crude oil in 1954.² At a minimum of \$2.50

per barrel, this represents more than \$6 billion per year. The importation of half this amount would obviously upset our foreign trade balance to a very serious extent.

EVEN more important than such upset would be the loss of employment due to the reduction of exploration and production activities of the oil industry. No single industry has any more stimulating and sustaining an effect on the economy of the nation than the exploration for and the production of oil and gas. The loss of even one-half of these activities without

² Report of API Committee on Reserves, 1954.

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any substitution of some other equally widespread industrial activity would certainly seriously impair our economy and cause widespread unemployment.

Coal reserves are widely dispersed over the nation and the building and operation of the synthetic plants necessary to supplement a declining oil and gas supply would stimulate and sustain our economy in practically the same manner as the exploration for and the production of oil and gas are doing at the present time.

Consequently, we believe the government's policy would certainly be to encourage the building of these synthetic plants for the use of domestic coal instead of permitting the importation of foreign oil.

As to atomic energy, the only plan on the horizon at present is the proposed use of atomic reactors to produce heat to make steam to generate electricity in those areas where the price of fuel is abnormally high.

This use is certainly at present only in the experimental stage. The whole question is recognized as one of economics. There is no serious suggestion that atomic energy can be used in small home units. Its use is only proposed as a "fuel"—source of heat—to make steam. Consequently, unless it can materially lessen the present cost of other fuels (oil and coal) now used to generate electricity, it cannot affect the demand for gas.

So in reason, as the situation looks today, atomic energy does not appear to offer any threat to natural gas in its rôle of supplying 25 per cent of the vital energy resource of the nation. However, if at any time atomic energy should be able to sup-

ply energy at a cheaper cost for the same purposes as gas is now being used, then certainly and inevitably it will supplant gas to that extent.

From the standpoint of the purchaser of the securities of natural gas companies, both pipeline and distributing—*i.e.*, the financial standpoint—the situation shapes up about as follows:

Gas is a natural energy resource today supplying 25 per cent of the energy requirements of the nation. The use of energy is the foundation of our economy and is the basis of our high standard of living.

The cost of finding and producing the supplies necessary for the demands of the consumer is increasing but the consumer can and will pay for the product unless a cheaper form of energy is available. When the cost of exploration and production reaches the point where it is more economical to make gas from coal, then this will be done and the present lines of the distributor and somewhat changed lines of the pipeline companies will be utilized to make available such gas to the consumer.

If this reasoning is valid, then, barring some new form of energy at a low price, the supply of gas available to pipelines and distributors is limited only by our known coal reserves.

Reserves for Immediate Future

As to supplies of natural gas for the immediate future, readers are doubtless familiar with the statistics on reserves published in the joint reports of the American Petroleum Institute and American Gas Association. At the end of the year

PROBLEMS AND PROSPECTS OF GAS SUPPLY

1954 the proven gas reserves, according to these reports, were slightly in excess of 211 trillion, 700 billion cubic feet, and the production for the year 1954 was 9 trillion, 426 billion cubic feet. The total discoveries, including revisions and extensions, were 9 trillion, 599 billion for the year 1954, while the total discoveries, revisions, and extensions for the year 1953 were 20 trillion, 453 billion cubic feet.

This drop in discoveries may or may not be significant and it is difficult to draw any conclusions from one year's experience. The figure for 1955 certainly should be watched by everyone to see if this indicates a trend.

Based upon the production for the year 1954 and the reserves quoted above remaining at the end of 1954, we have in front of us a calculated twenty-three years' supply for the demands existing at the end of 1954. As we all know, the industry is still rapidly expanding and these mathematical calculations present a false picture for the future. As we have said many times, the only method by which the demands of the public can be met is a vigorous and aggressive exploration campaign. Only by such method can the total reserves of natural gas that are economically within reach of the public be made available. At no point can we sit down and rest on our reserves.

Federal Regulation

THIS leads to the inevitable subject of the present state of federal regulation of the production of gas. We know from experience that governmental regulation of any activity necessarily slows down that activity. We know that the key to a continued exploration campaign, out to the

ultimate discovery of the total quantities economically available to the public, is the field price of gas. And it would seem to follow that whether that price is left to free competition or whether it is regulated by the Federal Power Commission, it must be fixed at such a price as will stimulate and support the necessary aggressive exploration.

Without that, we are necessarily going to walk off and leave a lot of reserves in the ground that otherwise could have been made available to the public.

But, in all events, the energy resources within the boundaries of our economy must be developed to their full extent to sustain our standard of living and provide for our defense, and the gas industry in one way or another can and will participate in the final full development of these energy resources, and will hold its place in maintaining our high standard of living.

Supply for the California Market

BECAUSE the company with which this writer is associated supplies so large a percentage of the gas sold in California, he would like to give the reader a quick bird's-eye view of such supply.

We are engaged in an aggressive campaign of exploration in the states of Wyoming, Utah, Nevada, Colorado, New Mexico, and Texas to find additional reserves to serve this market. Frankly, we have found that it is getting tougher and tougher to discover any sizable additional new reserves. The only major discovery of a gas field that has occurred in this area in the past ten years has been the San Juan basin in northwestern New Mexico and southeastern Colorado. This

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field was actually discovered more than ten years ago but it has been developed in the last ten years to the point of a major field. The trend has been towards smaller, less important fields.

However, we have increased the reserves available to the company to the point where we are now issuing bonds to mature as late as 1972 where as heretofore our longest maturity was 1968.

In addition, we have contracted for twenty years for a maximum of 100,000,000 cubic feet per day to be imported from Canada. The necessary applications for the use of this gas have been filed with the Federal Power Commission. Hearings have been held and we confidently expect certificates to be granted by December 1st, allowing this importation.

IN anticipation of the granting of these certificates, we have acquired the gas rights in leases covering more than 1,000,000 acres in the Peace River district of British Columbia, the area from which the gas is to be drawn to be imported under these certificates. This is a large potential producing area for gas and the arrangement entered into, and which we believe the Federal Power Commission will approve, will make possible the use of these potential reserves in the future to supplement supplies from domestic sources as needed to meet the demands of the entire Pacific coast market, as well as the markets of Idaho, Nevada, Utah, Colorado, Arizona, New Mexico, and west Texas.

Technically, Canadian gas is "foreign" gas, but as a practical matter the two countries, Canada and the United States, are tied so closely together both from a

defense standpoint and an economic standpoint, that the objections to the importation of gas lose most of their force when the importation comes from Canada. So these reserves will probably be used to prolong the supply of natural gas for the markets of this area.

But realizing that no one could build at once a plant to make two billion cubic feet of gas out of coal, we have employed engineers to study the work that has already been done by the American Gas Association, the Bureau of Mines, and the coal and oil companies, so far as such data are available, and to design a small pilot plant to embody the latest scientific principles and operate it with the view of trying to learn how to improve the technique. In the judgment of this writer, the best way to make progress in this study is to build a pilot plant of substantial size and put the gas into the line and charge the excess cost to "research."

We are sending these engineers to South Africa to study the design and observe the operation of the coal synthesis plant described earlier in this article; and we believe that such will be of immeasurable benefit in their work on the pilot plant we propose to build.

ALL of these facts demonstrate that the gas business is here to stay because we are engaged in supplying a basic element in our economy—an energy resource.

The present raw material is natural gas, but when that is used up to its economic limit, then coal will become the raw material. It certainly can be used for this purpose for many, many years to come.



Let's "Save" Our Economic System

The author of this article has used the word "save" in the best sense of prudent conservation and economy. Saving our economic system in this sense is an objective which should appeal to investors, consumers, and regulators.

By JOHN F. CHILDS*

THE utility industry is an important segment of our economy. It requires large amounts of capital, and it touches everyone of us as consumers. Unlike other lines of industry, it is completely subject to regulation. Because of its particular nature, special effort must be exerted if we are to save it as a sound part of our system of private capital.

In order to preserve this industry, each company must earn a "fair return" for the investors who provide the money for plant and equipment. In this connection let us consider the following questions:

Why is a "fair return" so important?

*Vice president, Irving Trust Company, New York, New York. For additional personal note, see "Pages with the Editors."

On which principles should it be determined?

What is "fair"?

Who is responsible for keeping it fair?

It can also be shown that everyone has an additional personal stake in the matter because it directly involves our life's savings.

Why Is a "Fair Return" So Important?

THE return goes to investors. Investing is sometimes confused with speculating. It may have a sinister connotation by apparent association with Wall Street, and with great profits. For this reason, to some people, the very word "investors" suggests

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a bad aroma. Some people are led to believe that a return is only fair when it is low, no matter how low. That is extremely thoughtless!

Let us use another word instead of investors. Let us substitute the word "savers." Let us see if this is a more correct description, and if it will help us appraise the matter of a "fair return" in its true light.

Certainly to save suggests a worthy objective—self-preservation. If we save, we will be able to take care of ourselves on a rainy day. More important, our economic system is dependent upon our savings.

At times, we may overlook what savings mean to our economy and where savings come from. We should keep these things in mind:

Plants and machinery make our labor highly productive. Money must come from some place to pay for these plants. Actually, it comes from everyone of us, from our savings in one form or another.

When we put money in a savings bank, we entrust that money to the bank to use its judgment to purchase securities and thus channel our money to build plants. The same thing happens when we buy life insurance, or contribute to a pension plan. And there is certainly nothing wrong as far as saving is concerned if some people buy securities directly. Many employees have done so through employee stock purchase plans.

THE character of the utility industry calls for unusually large plants, and thus a tremendous amount of our savings. At the end of 1954 some \$49 billion had

been directed into utility expansion through security investments, and we are all going to have to provide additional billions annually in years to come. In fact, electric utilities alone are expected to require about \$70 billion of our savings (including \$25 billion from retained earnings) in the sixteen years through 1970.¹

Let us look just briefly at how some of our savings are directed into the utility industry. Of the 1954 year-end \$49 billion composite capitalization figure, approximately \$14.8 billion² or 30 per cent represented investments of life insurance company funds (to a large extent accumulated savings of policyholders); \$1.6 billion,³ casualty insurance company funds; and \$1.1 billion⁴ securities held in investment trusts. These are impressive totals in themselves, without going into direct individual corporate security interests and holdings of pension trusts, mutual savings banks, colleges and universities, etc.

Much of the institutional investment is in bonds, but in the long run the bonds are only in a sound position if the equity is kept strong and attractive.

Thus, we should realize that each of us has a vital personal stake in the matter of a "fair return," and that it is truly the financial lifeblood of our economic system.

Could there be any greater economic sin than to be unfair to this basic part of our economic machinery and not make

¹ Based on a speech delivered by Charles E. Oakes, president of Pennsylvania Power & Light, on April 5, 1955.

² Life Insurance Fact Book for 1955 (Institute of Life Insurance, New York, New York).

³ Best's Fire and Casualty Aggregates and Averages for 1955 (A. M. Best Co. New York, New York).

⁴ National Association of Investment Companies (New York, New York).

LET'S "SAVE" OUR ECONOMIC SYSTEM

certain that savings were fairly rewarded? How long would our economic system last if such were the case? It might not topple as quickly as a house of cards, but it certainly would be undermined and gradually deteriorate. I might even go so far as to say that the Communists would certainly be pleased if we became so thoughtless as to be unfair, and by so doing, damage our economic system.

I HAVE heard it said that the management of a utility company considers itself as standing in the middle of a triangle with the consumers at one corner, the employees at another, and the investors, or "savers," at the third corner; and that it is the job of the management to make certain that fair treatment is accorded each. That is an excellent analogy. It is easy to visualize. It sets up the correct goal.

From the figures mentioned above it is clear that in our economy the consumers and investors, or savers, are practically identical groups, because all of us have indirectly or directly provided the funds for building the plants. Of course, consumers and investors, or savers, have to be treated separately because one person may be more of a consumer than a saver or vice versa.

In other words we see here demonstrated a mutuality of interest between consumers and investors. Fairness to both is vitally important. It should not be made a battle for survival of one group pitted against another. However, as some rate proceedings are handled today, the whole question of what is fair becomes a battle. Politicians, the press, and others may either inadvertently or otherwise distort the facts. Consumers are led to believe that there is everything to be gained and nothing to be lost by opposing every rate increase.

I do not say that it is a simple matter to determine what is a "fair return." Quite the contrary! To arrive at a correct conclusion we must understand certain basic principles. Only then can we apply sufficient judgment to mathematics in order to arrive at a final fair figure.

The Basis for Determining a "Fair Return"

WE must first consider the characteristic of utility operation. Here is where the plot thickens, and where another bad aroma arises because we have to use the word, "monopoly." This is another red pepper word which arouses irritation, suspicion, and misunderstanding.



G"THE utility industry is an important segment of our economy. It requires large amounts of capital, and it touches everyone of us as consumers. Unlike other lines of industry, it is completely subject to regulation. Because of its particular nature, special effort must be exerted if we are to save it as a sound part of our system of private capital. In order to preserve this industry, each company must earn a 'fair return' for the investors who provide the money for plant and equipment."

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Our economy for the most part is a free enterprise system. Competition is the natural regulator which determines prices. Our antitrust laws are provided to make certain that competition exists so that the consumers will be fairly treated.

No utility is free from some form of competition, because, for example, gas competes with electricity and with other fuels. Thus there is indirect competition.

However, the nature of the utility industry is such that direct competition between utility companies furnishing the same type of service in the same territory is not economical. It has long been conceded in the utility business that it is not *best for the consumers to have such competition*. Therefore, it is generally desirable for utility companies to be allowed to operate as a partial monopoly with exclusive rights in their territory. Laws under which utilities operate are framed with this interest.

Yet, some politicians have actually chosen to take advantage of this horrible word "monopoly" and scream, "let's investigate the utility industry for being a monopoly." You can be sure when you hear such talk that the person who makes it either does not understand about a great part of our economy, or understands but thinks he can use the word "monopoly" as a political smear word.

Is it any wonder that the question of what is fair has became a battle and the consumers are led to believe that any return, no matter how low, is a fair return to them? How ridiculous!

If it were economically feasible for direct competition to exist in the utility field, that is the way it would be operated in our economy. Therefore, it is logical, as a basis

for regulation, to consider what would be the circumstances if it were possible for competition to exist. In other words, regulation is a substitute for competition. Regulation should eliminate those profits which might be realized if monopoly were free to operate unrestrained, but it should not be so restrictive as to eliminate a reasonable return, such as is characteristic of competitive industry. Thus, the principle on which to determine what is a "fair return" for a utility has been well established by our highest courts as an amount comparable with that which would be earned if competition did exist.

This is a reasonable principle which is often lost sight of, which we should apply as a guide in determining what is fair. I use the word "guide" advisedly because the utility industry is regulated rather than free. There are some additional restrictions and risks for the investors which must be considered.

What Is Fair?

A "FAIR return" is the amount of dollars that a company should earn after all expenses to compensate savers, who provide the money for the plant and equipment through their purchase of securities. In order to arrive at this amount, it may be necessary to break it down into two parts—the *rate base*, or in other words the total dollar amount representing the investment; and the percentage *rate of return* to apply to the rate base in order to obtain the total dollars for a "fair return."

First, as to rate base. If we apply the economic principle we have discussed above there is only one logical method of arriving at the base and that is by reproduction cost. In effect, that means the



Industrial Rate Protestants

"It would be amusing if it were not so disturbing to see some large industrial companies enter rate cases to try to keep the charged rates to them low. Certainly, they should be charged fair rates, but one has only to look at some of their testimony to determine whether they are trying to be fair or whether they are just trying to get utility service at the lowest possible price. If their profits were thus attacked, it would be a different story."

property valued in terms of today's dollars. That is the way our competitive economy works.

Many state laws permit and regulatory authorities utilize other types of rate bases such as original cost. If other rate bases are used, let us at least acknowledge that they are a deviation from a sound economic principle. Let us say truthfully that it may be more politically acceptable, or more easy to calculate, or any other reason, but not that it is according to a sound economic principle.

I do not overlook the fact that in the past both management and regulation have been guilty of advocating the type of rate base which would best achieve their own ends, depending upon the circumstances at the particular time. No wonder

the matter of rate base situations today has reached such a sad and confused state.

NEXT, let us consider rate of return. In a formal rate increase application, various groups may intervene to prevent the increase no matter how justifiable. In order to gain their end, they will employ witnesses to testify on rate of return. Some such witnesses may do everything possible to distort the facts. Their story may sound quite plausible unless a person has had long experience in finance and realizes that figures alone will not produce a fair result but that a large amount of judgment is required, and unless a person realizes the importance of taking a long-run point of view rather than a short-term point of view. The latter may appear satis-

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factory on the surface but will fail under adverse conditions and not produce fair results under average conditions. Among other things, such witnesses may take any of the three following approaches:

1. They may claim that if a company has been able to raise capital, then, *ipso facto*, the company's rate of return is fair no matter how low; otherwise, they contend, investors would not have parted with their money.
2. In a cost-of-capital approach, they may misuse such important financial concepts as debt ratio, dividend pay-out, earnings-price ratio, and underpricing. By means of distortion they will arrive at an unreasonably low cost of capital.
3. They may claim that cost of capital is all that a utility company needs as a rate of return.

Let us examine, separately, these three approaches.

FIRST, the fact that a company has been able to raise capital is no proof that the company has been earning a fair return. I might add that even some utility managements have made fallacious comments along this line.

Once capital has been invested it cannot be withdrawn. The \$49 billion already invested in the utility industry must stay invested no matter what return it gets. It cannot go on strike. A company can still raise capital under some circumstances even though its return is too low because it can trade on the capital already invested. If a stock sells for \$100 and then later falls to \$75, because of poor earnings, new capital could be raised merely by offering new stock below \$75, and if it falls further

it could still sell new stock at some lower figure.

The new stockholders merely come in after the market has reflected the loss to the old investors. For example, the railroad industry has been able to raise capital through the media of equipment trust certificates even though the common stockholders have had most of their equity wiped out. Thus, the security market place and ability to raise capital are not necessarily any indications of what is fair.

Second, as to the misuse of certain financial concepts, such as debt ratio, dividend pay-out, etc., space will not permit a discussion of the many fallacies that are perpetrated. However, to one schooled in sound finance, they are a horror to behold and if some of these recommendations were carried out in a company's financing policy over a long period of time, the company would be in far from healthy condition. I am sure that they would produce such adverse circumstances that eventually regulation would condemn the company for being so imprudent as to follow them. Sound, conservative financial policy is a must for the utility industry. It has a mandate to serve no matter what the circumstances. Sound finance will assure its ability to serve.

LET us conclude this comment on the rate of return by considering some reasons why a fair rate should be above the cost of capital. This is where judgment is of utmost importance. I would not agree with those who say cost of capital should be completely ignored. It is one element to consider in rate of return. However, return should under no circumstances be restricted to cost of capital.

These are some of the reasons:

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1. *Good and bad years.* I need not go into detail on this point. Certainly, if a company is not allowed to earn more during years of prosperity, it will have difficulty showing satisfactory results on the average when it encounters adverse earnings. This may occur during an economic recession when it may not be feasible to raise rates. Certainly, industrial companies expect to earn at substantially higher levels in good times, and the same need applies to a lesser degree to utility companies.

2. *There are the inevitable lags.* These occur when a company needs a rate increase. A company must wait until bad earnings have occurred even before it can apply for an increase, and then, even with fast action on the part of the company in presenting its case and on the part of the commission in rendering a decision, there is a further lag before higher rates can be put into effect. Investors are painfully aware of these lag factors.

3. *There is no sign that the utility industry is going to stop expanding.* It must meet additional needs of the consumers, and companies have to build plants ahead of and in anticipation of the load. Furthermore, securities have to be sold and then plants built before this new property can produce earnings. The sale of securities results in an immediate dilution of existing earnings. Thus, there is a lag

between raising the money and putting it into productive use and full load development.

Interest during construction does not fully compensate for this factor and financial analysts look with skepticism on this bookkeeping income item. Too many times have they seen interest during construction fail to be replaced by earnings after the plant has been built. There is a practical lag which analysts weigh every time there is a new offering, especially of common stock.

Particularly remember this: Unlike an industrial company, a utility must expand even though its earnings are not adequate and the new project itself will not be immediately profitable.

4. *Regulation cannot generate earnings if a company becomes economically unprofitable.* Regulation can only permit earnings which the company is able to achieve. In other words, regulation can only act as a damper but not a helper. Obviously, then, regulation should not be too restrictive when a company can earn. If earnings of all regulated industries, including electric, gas, water, telephone, traction, and railroads, were added together over a long period of time, it would be very clear that the consumers had been treated better than the investors.

5. *There should be the incentive or spur to improvement and progress.* That



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"MANAGEMENT, employees, regulators, politicians, the press, and yes, the consumers, who are also investors or savers—all must realize the importance of capital, for it makes possible the utility industry. A fair return to the investors, also, means fairness to each one of us as savers and consumers in the long run and is necessary to do justice to the principles on which our economy is based . . ."

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incentive certainly exists for industrial companies.

6. *The inflation factor should be taken care of through the rate base or through the rate of return.* There is also the matter of economic depreciation, a problem accentuated by inflation. This is a most complicated subject deserving real study.

While inflation has apparently subsided for the time being, the prospects are that some time it will visit us again.

7. *Utility investors expect stability of income, but they also expect some appreciation.* Certainly, investors do not consider utility stocks as low-grade preferred stocks with a limited return and no growth prospects. There should be a reasonable anticipation that as earnings are plowed back and provide additional capital that there will be greater earnings and a gradual appreciation. How can an investor come out even, on the average, if he faces the uncertainty of any gain, or rather certainty of losses in some of his investment and no chances of appreciation?

THUS, there are many reasons why a fair return should be more than the cost of capital, and it is certainly justified on the basis of the principles on which regulation is supposed to operate. Can you imagine an industrial company being interested in expanding if it were held down to the cost of capital and had all the added problems which regulation imposes? Why shouldn't savers supplying the money for utility companies be treated as fairly as they are when they provide the money for industrials?

If anyone has any doubt of the adverse effects of applying the cost-of-capital prin-

ciple to rate making, let him review the effect on investors and the securities of natural gas pipeline companies after the Federal Power Commission rendered its restrictive cost-of-capital opinions in the Northern Natural Gas Company⁵ and Colorado Interstate Gas Company decisions in 1952.⁶ The investors became seriously concerned and began looking for other fields in which to place their funds, and rightly so.

What should be the allowance above cost of money to result in a fair return? That all depends on what factors are to be included and what factors are taken care of by other means. If a year-end or a future trend rate base is used, then some of the lag between the time the investment is made and the time earnings materialize is compensated. An adequate allowance for working capital will also help compensate for funds that are temporarily held idle during an expansion program, etc.

Thus, a reasonable allowance, above the cost of capital to achieve a fair return will mean a lot in terms of fairness to a great segment of our savings. It will not be any significant burden on the consumers but in fact will be a benefit to them over the long run by helping to keep part of our private industry on a sound basis.

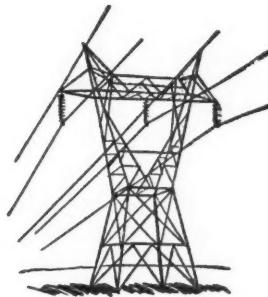
Who Is Responsible for Keeping It Fair?

PRACTICALLY everyone has a part to play in assuring that investors or savers are given a "fair return." Let me just mention some groups:

1. MANAGEMENT has almost a sacred trust when we consider the job of keeping a fair balance between consumers,

⁵ 94 PUR NS 485.

⁶ 95 PUR NS 97.



Regulation a Substitute for Competition

"If it were economically feasible for direct competition to exist in the utility field, that is the way it would be operated in our economy. Therefore, it is logical, as a basis for regulation, to consider what would be the circumstances if it were possible for competition to exist. In other words, regulation is a substitute for competition. Regulation should eliminate those profits which might be realized if monopoly were free to operate unrestrained, but it should not be so restrictive as to eliminate a reasonable return, such as is characteristic of competitive industry."

employees, and savers, particularly because of the billions of dollars of savings entrusted to their care. The following might be said of management's part:

MANAGEMENTS must thoroughly understand "fair return." It is the basis for the price policy of the industry. How can they avoid understanding it? How can they convince others as to what is right unless they are steeped in it?

Many managements do, but unfortunately I am sure that there are a number in top management positions who would be at a loss to give a sound explanation. Management should not wait until a rate case arises. A utility company

should be run every day with the gauge of a "fair return" in mind.

Financing and rate case work should be co-ordinated. It is an indication of poor management if there is no relationship between these two functions. Since cost of capital has a part in rate of return, each time a financing is done it should be studied to determine what, if any, effect it may have on a fair return.

Some managements have been heard to emphasize that they have never had a rate increase. This is a real achievement if the savers have always been fairly treated. However, if not, management should not shrink from the task of obtaining a rate increase.

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PROXY battles are no protection to the investors. Earnings have to deteriorate to a very low point before someone will champion the cause to throw out a laggard management. The average investors, or savers, would rather sell out and take their loss, and get into something more attractive.

Unfortunately, examples can be cited, even in this great boom, where utility managements continue to sit quietly in control, even though they have complacently let the return stay below what is fair. Of course, if the return becomes unnecessarily high, it is just as much the duty of management to lower it.

Management must do everything possible to build consumer good will, both with the small users and the large, so that when a rate increase is necessary it will be understood and will meet with as little antagonism as possible.

Management must see that its first line of salesmen, the employees, are top salesmen for the company and thoroughly understand the need of rate increases. Each employee should play his part and play it for all it is worth. He should be shown how it is his way of life that he is fighting for.

2. OBVIOUSLY, it is the prime responsibility of regulation. Regulators are not just appointed to represent the consumers. They have an equal responsibility to the savers. They are in a high quasi-judicial capacity over a large segment of our national savings, and our economic system. Their position is just as important to our system of free enterprise as are the judges who preside in our courts over our personal freedom. Certainly, from the point of view of our economic system, they

are more important because they try the facts in a rate case, and most courts upon appeal will generally not disturb the economic findings of a commission unless it failed to consider certain facts.

The task of regulators is a very difficult one. The men who assume the responsibility are doing a tremendous job. They are really underpaid for the most part and every effort possible should be made to see that they are better compensated.

3. I HAVE the greatest respect for the job the politicians do, and they play an important part for our regulated companies. Rate increases are politically unattractive. However, our politicians should certainly seek to preserve our economy.

Politicians play two important rôles in rate cases. Many regulatory commissions are appointed by governors of the states. Such appointments should be looked upon as being equally important as appointments to judgeships. And once appointed, regulators should be left free by those who appoint them to carry out their duties in the most judicious way—as they see it should be done. Certainly, any political pressure on judges is looked upon with horror by our country. So should it as far as utility commissioners are concerned. To make regulation a political football is certainly an offense against our economic way of life.

There is one other comment which might be made in connection with the politicians. It is outside of the matter of "fair return" but it does affect our savings.

Do the people of this country want Socialism or don't they? Do they want their savings taken over by the government and invested in this plant or that with govern-

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ment ownership of the plants? That is Socialism whether it be by the national, state, or city government. Let's not mince words. Government certainly has its place in flood-control and similar projects. However, when it enters the electric utility field, that is Socialism.

THE Dixon-Yates power plant was a tremendous effort to save us from the encroachment of Socialism in a certain area. It was sound in principle, honestly conceived, and should have been financed by private industry.

Now, let's call a spade a spade. There are many politicians who have favored government power projects. However, they have feared to call them by their right name—socialistic—and they have juggled the figures hiding the true cost of socialized power. They have tried to smear private power.

They tried to smear the Mississippi Valley Generating Company project by calling it a "deal." They should not be permitted to hide behind a screen of falsehood any longer. They should be made to parade under the name Socialists. Then

let's see what this country really wants. An editorial on this subject in a New York paper recently included a paragraph which summarized the situation very well as follows: "The principle involved is whether this is to be a capitalistic or socialistic country. Public power is a basic form of Socialism. Private power is capitalistic. Wherever there is public power, the whole American people pay for the benefits of a particular area."⁷ If the voters still approve government power, then it should shock the utility industry into realizing that it has got to put much more effort into making the people understand the advantages of private utility companies *versus* Socialism.

4. THE job of the press is, of course, to report the facts. Our press does an admirable job. However, as far as reporting rate increases are concerned, there is much to be desired.

Too often the headlines scream about rate increases in terms of millions of dollars. The consumers get excited. They are

⁷ From the editorial page of *The Daily Mirror*, July 13, 1955.

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	<i>Sales—1940 (Billion Dollars)</i>	<i>Sales—1954 (Billion Dollars)</i>	<i>Approximate Amount of Price Increases</i>
†Electric ¹	\$2.4	\$7.3	\$0.1
†Steel ²	2.2	6.0	2.4
*Meat	3.9	N.A.	6.4
*Dairy Products	3.0	N.A.	3.1
*Food ³	21.9	73.3	24.1
*Clothing ⁴	7.4	19.5	7.1

N.A. Not available.

¹ *Electrical World*.

² Computed by Irving Trust Company from figures published by The American Iron & Steel Institute and *Iron Age*.

³ National Industrial Conference Board.

⁴ Excludes fuel adjustments.

² Excludes reserves from other operations.

³ Includes beverages; excludes tobacco.

⁴ Includes accessories and footwear.

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very seldom told it means much to them also as savers and to our economic system. Rarely is mention made of how cheap utility service is and how little the rate increase means to each of them in terms of their cost of living.

They are never adequately told that any rate increases even reported in terms of millions of dollars are minute as compared to the billions of dollars of increases that have occurred for the same consumers for practically all of the commodities they buy.

Perhaps the figures set forth in the table on page 939 will give clearer emphasis to these points. While several of the results presented are rough approximations, they are significant in expressing the magnitude of price increases experienced for the items included.

There is no intention here of questioning the justification for the increases in prices of these commodities.

With regard to the matter of private *versus* public power, the press has not always called a spade a spade in stating that public ownership of plants is Socialism as was so forthrightly done in the quotation referred to above.

Perhaps part of the unfavorable reports by the press is due to utility companies and commissions not working together on press releases to make certain that a complete story is told.

5. It would be amusing if it were not so disturbing to see some large industrial companies enter rate cases to try to keep the charged rates to them low. Certainly, they should be charged fair rates,

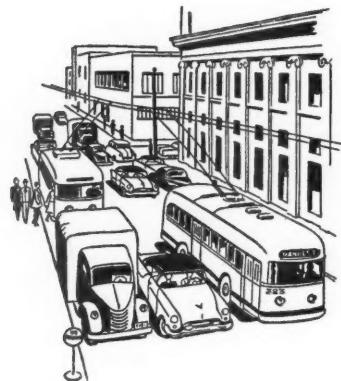
but one has only to look at some of their testimony to determine whether they are trying to be fair or whether they are just trying to get utility service at the lowest possible price. If their profits were thus attacked, it would be a different story. By being unfair to utility companies, do they realize that they are playing right into the hands of the Socialists? A quick buck or short-term point of view on the part of industrial companies could be their own poison.

And along with large consumers of electricity, I might mention the members of the bar who represent them. Instead of waving a banner for their clients they might just ask themselves and then convince their clients that a rate reduction is not necessarily good even for them over the long run.

Conclusion

SURELY let's discuss and argue rate cases in open forum with all the cards face up on the table—the good old American way. Let everyone have their say. However, personal greed or short-term personal advantage should not result in inadvertent assistance to those who would wreck our economy.

Management, employees, regulators, politicians, the press, and yes, the consumers, who are also investors or savers—all must realize the importance of capital, for it makes possible the utility industry. A fair return to the investors also means fairness to each one of us as savers and consumers in the long run and is necessary to do justice to the principles on which our economy is based, and to preserve our great economic system.



Rescuing "Downtown" And Its Transit

Here is a brief message on practical steps and guiding policies which should be employed in preventing the collapse of "downtown" business. It shows how everyone, including the local taxpayer, professional man, and others who may not even be located downtown have a stake in rescuing the central city area from the blight of lost property values and business volume.

By PHILIP M. TALBOTT*

LAST June I had the pleasant and inspiring opportunity of visiting fifteen major cities throughout the United States and Canada.

Accompanied by J. Gordon Dakins, executive vice president of the National Retail Dry Goods Association, I talked with approximately one thousand retailers during my three-week, 9,000-mile trip. The primary purpose of my journey was to make an on-the-spot survey of business conditions, with particular emphasis on downtown development.

As I look back, I am impressed with what seemed a common objective of retailers in the East, Middle West, Pa-

cific coast, and Canada—their interest in the improvement of downtown business through a community-wide approach. As a result, I soon found that the major part of my informal conversations and formal discussions were being devoted to downtown vitalization.

I have long contended there is nothing wrong with downtown sections of principal cities, that cannot be corrected by joint action of leading citizens who have an interest in downtown areas. All we have to do is to maintain the advantages we already have. We must recognize that the downtown areas are the greatest shopping centers in the world.

It is not my opinion that downtown

*Senior vice president, Woodward & Lothrop Company, Washington, D. C.

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America is doomed. However, the problem of downtown vitalization is not merely a matter of dressing up our main streets and the buildings and stores that line our thoroughfares—it is far more than that. Its component parts include mass transportation, traffic relief, parking, and slum clearance.

Occasionally I have felt somewhat distressed when I learned of some negative thinking on the development of downtowns; sometimes the positive approach is more difficult but it is only by reverting to positive thinking can positive results be obtained. Our business, our cities, and our country have reached their present stature as a direct result of a positive approach to all problems.

DOWNTOWN shopping areas in big cities are very much alive and will continue to be so. Downtown is the center of many interests. In terms of real estate, it represents nationally the greatest single investment in the nation. In terms of the entertainment world, it constitutes the focal point of the theater and motion picture industry. In relation to banking, it includes the majority of banks and financial institutions in the country. With respect to civic enterprise, it represents the highest percentage of endeavor and effort.

As a taxpayer, downtown does far more than yield its share of the burden. And, most important, downtown has always represented the shopper's paradise. Nowhere is America's bounty better displayed than in the downtown shopping areas of its towns and cities. To the average American, downtown symbolizes the Main streets and the Broadways, which are common to every city in the nation.

But downtown is more than a street—it is the nerve center of any population area—it is the heart of every city. Like a human heart, it pumps life into the entire trading areas it dominates. The perimeter depends on it.

While the job ahead is an enormous one, there is encouragement in the fact that tradition is on our side. We are supported by tradition in the desire of the American consumer to shop in centralized areas; the tradition of buying in stores centrally located and convenient to theaters, hotels, banks, and professional buildings; the tradition of being accustomed to wide and full assortments of merchandise—traditions about which no other area but downtown can boast. In addition, a third of downtown shoppers are already there for other reasons, and the other two-thirds can be drawn by aggressive merchandising and community leadership with an eye on traffic problems, conditions of facilities, etc.

HOWEVER, we cannot expect the American consumer to shop downtown because of sympathy for our downtown business interests. If we are to win and hold the downtown customer, we must do those things which will attract her trade, and once having done these things, we must use every publicity media at our command to keep her informed of the convenience and advantages of shopping downtown.

A vital, aggressive downtown business district is everybody's business. It seems to me that because of the development of suburban areas, there is an overemphasis on retailing's position in relation to the over-all downtown picture. Actually, when

RESCUING "DOWNTOWN" AND ITS TRANSIT

G "It is not my opinion that downtown America is doomed. However, the problem of downtown vitalization is not merely a matter of dressing up our main streets and the buildings and stores that line our thoroughfares—it is far more than that. Its component parts include mass transportation, traffic relief, parking, and slum clearance."



we consider the downtown problem, we must consider downtown as the center of all business and we must make sure that all business is represented in our program for vitalization of our downtown districts. Specifically, it is a job in which every segment of business and civic life must co-operate if we are to maintain our cities in their rightful and traditional rôle of nation-wide leadership. It is just as important for the property manager, the real estate operator, and the banks, particularly their trust departments, to recognize the vital need for them to join in steps to vitalize downtown business districts.

Cities all over the country are searching for the right formula to put recentralization of their downtown areas in motion. This problem is not insurmountable—it can be solved through unified and vigorous action, properly executed. There is a continuing good future for downtown areas, but the time for effective decisions and actions is *now*.

I AM convinced that any action on vitalization of downtown districts should have these immediate objectives:

Organization of a small but representative group of businessmen and civic leaders to establish a program which would have as its sole objective, an economically, culturally, and socially strong downtown district.

Development of a many-pronged program based on the elimination of slum sections, improvement of traffic conditions, provisions for off-street parking facilities, development of means for rapid mass transportation, the attraction of private capital for construction to vitalize the area, and promotion to bring people downtown.

The thousands of conversations I had with leading retailers in every section of the land have led me to the conviction that modernization is our greatest weapon to fight suburban competition. It is everybody's business to keep downtown alertly modern. Our studies show it can be done through small, able committees working for the joint action of the community. These committees should report regularly to the top group, and each should be assigned a clear-cut area of operation. Their attention should be directed to such helpful projects as one-way streets, center lanes for bus traffic, off-street parking, bypassing highways around the business district to relieve traffic congestion, off-street mass transit terminals to prevent the blocking of streets by buses loading and unloading passengers, cultural improvements, and the formation of new companies for building and operating parking facilities.

Of course, there is no set program for downtown vitalization which will fit

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every city. In Chicago, the marked progress has been made through erection of parking garages in the downtown area. Washington, D. C., is meeting the challenge with arterial highways to eliminate traffic congestion. Pittsburgh has made physical improvement in the downtown shopping areas to attract the shoppers. Other cities tackle the problem through traffic control.

It is my opinion a program should be mapped out which will be most effective for each particular city. With that objective, merchants should talk more about the downtown area and publicize the improvements that have been made. Such publicity has a psychological effect upon other property owners and on the public in general.

IN urging a drive to keep downtown a live force in the community, no one concerned with downtown can fail to ignore suburban developments. The mushrooming growth of suburban living does not foreshadow the death of downtown, however.

Retailers should understand that shopping centers are additional business and represent a perfectly natural development as a growing population expands to suburban areas. Customers want convenient service, so it behoves stores to establish suburban branches. But there is

no reason for not recognizing them as an opportunity for additional business.

Suburban shopping centers offer an opportunity for additional business, not competition. I would venture an opinion that the time may not be too far in the future when suburban shopping centers will be competing more with each other, than they will be with the greatest shopping center of them all—downtown.

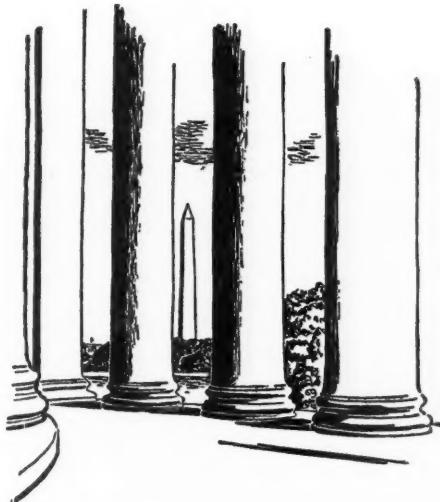
THERE is one more observation I would like to make. It pertains to the fact that many of the blighted downtown centers consist of deteriorated buildings which are the property of absentee owners. Some of these owners are distant descendants of the original builders. The current ill condition of their properties has resulted from their lack of interest, and in turn has given downtown a bad name. It is a job for the local downtown committees to urge the executors of such estates to encourage property modernization to the owners. It should be evident that such improvement is good business from any standpoint, including that of the type of tenant available and the return from the property's facilities.

Earlier I said that downtown is everybody's business. More than that, it is everybody's responsibility. There is a job in downtown vitalization for everyone interested in his community.

“WHILE remaining militarily and economically strong so as to discourage an enemy who respects only power, this country also must build a sturdy structure of permanent peace. If we try to build peace solely in harmony with man's best instincts, we would only create opportunity for the Tamerlances, and Alexanders, and Napoleons, and Hitlers, and Stalins of history to take control.”

—MILTON S. EISENHOWER,
President, Pennsylvania
State University.

Washington and the Utilities



Dixon-Yates Void or Voidable?

THE Atomic Energy Commission will have to decide whether the defunct but still controversial Dixon-Yates contract for building a power plant to supply Memphis via TVA is going to cost the federal government much or little damages. The commission has the job, in the first instance at least, of determining what the federal government should pay to the Dixon-Yates interests for their trouble and as a fair price of getting out of the contract.

But the first hurdle will be a question raised by AEC's own lawyers as to whether the government ought to pay anything substantial if it is found that the contract is "void or voidable." Staff lawyers have held that the contract might be regarded in this light due to conflict of interests.

The conflict-of-interests angle arises from operations of Adolphe Wenzell, who was hired as a consultant by the Budget Bureau while remaining an officer of the First Boston Corporation, which finally became financial agent for Dixon-Yates. He participated in several conferences within the government relating to the Dixon-Yates contract.

President Eisenhower ordered the contract canceled last summer, but the AEC apparently has never discovered a way to terminate the deal on the basis of the written contract. At the suggestion of the General Accounting Office, so-called "watchdog of the Treasury," it called off cancellation negotiations with Dixon-Yates while it considered whether there ever was a legal or binding contract. GAO suggested that the conflict-of-interests aspect be studied, and said in effect nothing should be done to prevent the government from protecting its interests in court, if necessary.

If AEC's general counsel now holds the contract void or voidable, Dixon-Yates could only collect cancellation "damages," if any, through a suit in the U. S. court of claims. The information about the views of AEC lawyers was revealed through a press interview with Senator Clinton Anderson (Democrat, New Mexico) by Marshall McNeil, Scripps-Howard reporter. Anderson is chairman of the Joint Congressional Atomic Energy Committee, and has contended for months there never was a binding contract between AEC and Dixon-Yates.

PUBLIC UTILITIES FORTNIGHTLY

A Senate antimonopoly subcommittee, headed by Senator Estes Kefauver (Democrat, Tennessee), investigated the whole matter. Senator Kefauver charged that Mr. Wenzell's operations had violated the conflict-of-interests law, and he referred the matter to the Department of Justice.

Gas Cases Stall in FPC

THE nature of the evidence which a gas producer must submit to the Federal Power Commission to sustain an application for a rate increase is giving both FPC and producers headaches. There is now some reason to believe that thinking on such matters within the commission may soon reach a point where there may be a definite policy decision, outlining at least the ground rules to be used in regulating producer rates. Such a decision has been delayed, if not obstructed, by the continued confused situation in Congress.

It is likely to remain confused as long as both FPC and the producers may be constrained to defer any rate-fixing precedents until the outcome of congressional developments is clear. It is recognized, however, that answers to the rate-fixing question may eventually have to be found and adopted by FPC, even if eventual passage of the Harris Bill (HR 6645) by Congress should remove producers from most forms of regulation by the commission. FPC now seems disposed to reject the producer concept in the Harris Bill of "reasonable market price" as an adequate regulatory standard. There is no indication that FPC would be forced to use the market price guide where it still had jurisdiction, even if Congress should adopt such a standard in modifying the decision of the U. S. Supreme Court in the Phillips Petroleum Case.

A recent FPC order involving sales to Transcontinental Gas Pipe Line Cor-

poration shows an interesting development.

FPC, in this order, refused to grant motions to dismiss submitted by interveners and the commission staff. But in sending the cases back to the hearing examiner for possible introduction of further evidence, the commission stated that "the fact that contracts have been entered into in good faith and in arm's-length bargaining does not make them immune from the regulation . . . prescribed by Congress, nor are producer contract terms, *per se*, an indication that the prices agreed upon are just and reasonable either initially or as subsequently increased pursuant to escalation clauses or otherwise."

Union Oil Company of California and others had based their cases on a numerical study of contract price levels in the field where the gas is produced. While FPC said that this evidence did not convince it that the proposed rate increases were just and reasonable, it did admit that in fixing the rates of producers it was not, on the other hand, compelled to apply the same regulatory formulas as those applied to set the rates of interstate pipelines. The effect of the order seems to indicate that what the commission wants, and eventually would require, if the cases are not dismissed, is evidence to establish the price of production. To avoid a rate base approach, the petitioners in the case may decide not to submit such cost evidence at this time.

IT is possible, of course, that FPC would use such evidence only as alternative background, justifying a middle course, which would take costs into account as only one factor. Consumer ability to pay, conservation and supply requirements, and existing contracts and trade practices, are other elements that FPC Chairman Kuykendall recently listed as applicable.

WASHINGTON AND THE UTILITIES

L. F. McCOLLUM, chairman of the American Petroleum Institute's natural gas and oil resources committee, has summed up recent trends in the regulation of natural gas producers by the FPC. He spoke to a gathering at the thirty-fifth annual meeting of the institute in San Francisco last month. It was clear from the beginning, he said, that it would be impossible for the FPC to apply a public utility type of regulation to the "risky business of finding, development, and production of gas reserves." Current figures show that the continuance of federal controls is resulting in diminishing supplies of gas for the consumer, according to McCollum, who is also president of Continental Oil Company.

McCollum maintained that FPC has carried controls even farther than the U. S. Supreme Court required. To support this statement, he apparently referred to the FPC opinion affecting Deep South Oil Company, Humble Oil & Refining Company, and Shell Oil Company, in which FPC held it had jurisdiction over sales of gas delivered at intermediate points prior to the completion of the entire production and gathering process. The gas industry official asserted that this ruling decided that if any portion of a gas well's production is commingled with a stream of gas that eventually finds its way into interstate commerce, then the entire output of that well is under FPC jurisdiction.

Senate Majority Leader Johnson (Democrat, Texas) has confirmed reports that the Harris Bill will be given prompt consideration in the coming session of Congress. He said recently that the bill to exempt natural gas producers from most forms of FPC jurisdiction stands a good chance for final congressional approval. Senate approval is all that is now required to send the legislation to the

President for signature. But a campaign, led by Senator Douglas (Democrat, Illinois), to defeat the bill has shown signs of getting under way in earnest. Delaying tactics could defeat the bill, although it is at present given a wide voting edge in the Senate.

BPA May "Wheel" Utility Power

BONNEVILLE POWER ADMINISTRATION has under consideration a proposal for carrying on its transmission lines, power generated at proposed nonfederal projects, it was announced last month. Byron Price, Portland, Oregon, BPA Assistant Administrator, said Interior Secretary Douglas McKay authorized such agreements earlier this year. Price made the disclosure at a BPA customers' meeting in Spokane.

Price said such agreements would "encourage construction of nonfederal power projects and relieve private firms of the expense of constructing transmission lines to carry power to centers of usage." Price said another advantage would be the assurance of hydraulic and electrical integration with the Northwest Power Pool and increased reliability. It also would enhance the feasibility of projects located far from power load centers, he said.

Price said such agreements also would avoid construction of duplicate transmission facilities. The plan will be discussed with customers, industrialists, businessmen, and other interested parties.

The proposed wheeling (carrying) agreements would provide for 20-year contracts with a review of rate schedules every five years. The cost formula would be based on the average BPA transmission costs for facilities used.

Price said the cost would range for an average distance from \$2.02 for delivery

PUBLIC UTILITIES FORTNIGHTLY

at 230,000 volts to \$9.63 per kilowatt year for customer deliveries under 20,000 volts. Revenues from sales of secondary power have been an important factor in keeping BPA's rates low, Price said. In fiscal year 1955 revenues from BPA secondary sales amounted to \$9,800,000 or 19 per cent of total revenues.

A REPORT on Bonneville Power Administration's rate structure last month recommended maintenance of the so-called "postage stamp" principle under which power is delivered anywhere on BPA transmission lines for the same price. The most important departure from the "postage stamp" procedure is the at-site firm power rate, the report said.

The report was submitted by the New York firm of Ford, Bacon & Davis, Inc., at a meeting of BPA's advisory council in Spokane last month. Dr. William A. Pearl, Portland, Oregon, BPA Administrator, said he had not had time to digest the report and could make "no comment."

The at-site schedule is "illogical when applied to a transmission network such as BPA's where no one particular generating station necessarily can be deemed to be the source of power and energy supplied to a customer located near that station." The agency's rates can stand without increase for at least seven years, the report said. The general rate now is \$17.50 a kilowatt year.

*

Kefauver Hits the Fast Tax

DEFENSE Mobilization Director Flemming has been asked for an explanation of the accelerated tax amortization program as it pertains to utilities, particularly the electric utilities. Senator Kefauver, in a letter to Flemming, called for an explanation of the "huge subsidies" granted the electric utility industry since

the start of the Korean War. Kefauver alleged that estimates indicate that the total benefits accruing to utilities under the ODM program will exceed \$6 billion. The "subsidy" that this represents, Kefauver said, would exceed the total amount of the federal government's investment in power projects (as of the end of 1953) by \$4 billion.

THE subsidy, in Kefauver's view, arises from the fact that "the private power companies have been permitted by the Federal Power Commission to use these (accelerated tax amortization) certificates as interest-free loans which can be reinvested at 6 per cent interest compounded." As documentary evidence the Senator points to an opinion expressed by a staff counsel of FPC, in which the counsel stated that on the figures then obtainable "utilities would receive a subsidy of almost \$2 billion over a 30-year period in connection with certificates which had been issued." Also cited by the Senator was the FPC opinion (No. 264) on the treatment of federal income taxes as affected by accelerated amortization. In this decision the commission stated that the certificates have "the precise effect of a grant by our government to certificate holders of an interest-free loan."

On the basis of ODM's goal of 150,000,000 kilowatts of capacity which is to be built by 1958, Kefauver estimates that the benefits accruing to the utilities will approximate \$6 billion. Kefauver expressed a desire to be provided with more detailed information about the tax amortization program, particularly as to its justification, generosity, defense need, and the criteria used in issuing certificates. Kefauver made no reference to ODM certificates granted to other (than electric utility) corporations—many of which have facilities in Tennessee.

Wire and Wireless Communication



FCC Files Opened to Congress

THE Federal Communications Commission has agreed that it is not bound by any administrative orders of secrecy in the release of information to congressional investigating committees. This comes as a reversal of an earlier attitude on the part of the FCC when Chairman Magnuson (Democrat, Washington) of the Senate Interstate Commerce Committee, investigating radio and television regulations, asked for data in FCC files said at first to be confidential in nature.

Magnuson renewed his request to Attorney General Brownell, who decided that material in the FCC files, which might be pertinent to a congressional investigation, should not be secret as far as duly authorized committees of Congress were concerned. As a result, Acting Chairman Webster informed Senator Magnuson of this in a letter, stating in part as follows:

The commission has reconsidered your committee's request for television station and network financial and affiliation data in the light of the Attorney General's opinion, and we are now prepared to make the information available to your staff. We urge, however, that the confidentiality of the data be guarded in so far as possible.

It has been our practice to release

and publish any summaries of statistical total of the financial information contained in reports submitted by stations and networks, without disclosing the operating experience of an individual, identifiable station.

The Attorney General's ruling and the FCC acquiescence may have some further influence on other regulatory commissions, such as the FPC and the SEC. The Attorney General's opinion was confined to documents and information filed with the commission under the Federal Communications Act. The Brownell opinion stated:

The Communications Act does not impose any bar to disclosure. Section 412 of the act specifically makes certain documents and information filed with the commission "public records." The legislative Reorganization Act confers upon the Senate committee authority to conduct investigations into matters within its jurisdiction, and to require the production of such documents it deems advisable.

Tax on Radiotelephone Service

A RECENT ruling by the Internal Revenue Service requires that users of mobile radiotelephone dispatch service

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must pay the same communications tax as that imposed on local telephone service. The text of the ruling is as follows:

The tax on amounts paid for local telephone service, imposed by § 4251 of the Internal Revenue Code of 1954 (§3465 (a) (3) of the Internal Revenue Code of 1939), is applicable to charges made for radiotelephone dispatch service, including charges for rental and maintenance of transmitting and receiving equipment installed in the subscriber's vehicles.

The need for the ruling arose as a result of questions raised by a radio corporation engaged in rendering mobile communication service to the public on a common carrier basis, pursuant to its tariff on file with the Federal Communications Commission. The service rendered by the corporation is a two-way radio dispatch service. A subscriber may communicate only between his premises or one of his mobile units and the base station maintained by the radio corporations. The operator at this base station then relays the message as directed. All radio communications are over wave lengths and frequencies assigned to the radio corporation and the operations are conducted under Federal Communications Commission licenses granted to such corporation.

Mobile units of the subscriber are equipped with transmitters and receivers for which the radio corporation makes a monthly rental and maintenance charge. There is also a monthly service charge covering a specified number of calls, with an additional charge for each one-minute call in excess of the number covered by the minimum monthly charge.

ACCORDING to § 4251 of the 1954 Code, a tax is imposed on the amount paid for local telephone service. Section 4252 (a) defines "local telephone service" as

meaning any telephone service not taxable as long-distance telephone service; leased wire, teletypewriter, or talking circuit special service; or wire and equipment service. The latter section further provides that amounts paid for the installation of instruments, wires, poles, switchboards, apparatus, and equipment shall not be considered amounts paid for service.

In the test case the Internal Revenue Service held that a radiotelephone dispatch service as described falls within the category of "local telephone service," subject to the tax imposed by § 4251 of the 1954 Code. The tax applies to the total of the recurring charges for the services and for the facilities necessary to complete the service, including charges for rental and maintenance of the transmitting and receiving equipment.

REA Chief on Rural Telephones

AN interesting outline of recent developments in the rural telephone program of REA was presented by E. C. Weitzell, chief of the telephone operations and loans division of REA, to the Georgia Telephone Association in Savannah on November 18th. Weitzell said that one of the most obvious recent developments in the independent industry is a feeling of urgency in relation to the need for financing and modernization. This realization has been accelerated by several recent happenings. The demand for adequate telephone service, consistent with the quality of practically every other phase of farm and small-town life, has been by no means a small contributor to this realization. Most rural people want good telephone service just as they want good electric service, a good automobile, good roads, and good homes.

According to the REA chief, the technological development occurring in the

WIRE AND WIRELESS COMMUNICATION

industry, particularly that which is leading to subscriber toll dialing, automatic ticketing, and all the other great advances that we have been hearing about, is "handwriting on the wall" in so far as the smaller companies are concerned. There is no alternative to progress if we are to survive! To fail to progress is to drift backward! Therefore, consolidations, reorganizations, and the integration of our telephone systems in order to present legitimate and sound financing bases are a "must."

He added that the general inefficiency and rising cost of manual service represent another acceleration in this need to move ahead. If the larger companies are going to provide a better and more useful service, there is hardly a question but that the smaller companies are going to have to follow suit.

Weitzell reminded his telephone company listeners that REA borrowers do not have to borrow any more than they need, contrary to erroneous gossip. On the contrary REA insists on the lowest practical investment per station consistent with needs.

DURING the past two or three years, REA has made a number of changes in loan procedure. The old "allocation" and "preloan engineering" stages have been eliminated as a short cut. But no loan is made on the basis of unsupported subscribers' estimates. Equity requirements for commercial company borrowers have been lowered to provide from 10 to 15 per cent of total assets, and loans no longer need to cover all of the borrower's system. They may be allocated to individual exchanges or sections as long as the asset basis is sound. Also contrary to erroneous reports the REA does not require borrowers to serve every establishment in their service area. The emphasis is on the

word "practicable." For co-op borrowers REA no longer insists on approval of managers.

One of the most significant changes has been the allowance of company reorganization along "holding company" lines to permit borrowers to borrow on particular projects without disturbing over-all financing. Per-station investment for loans in Georgia, according to Weitzell, is from \$257 to \$560, with the average of all loans about \$460 per station. Weitzell concluded his Georgia address as follows:

Although the progress to date has been gratifying in practically every respect, we still have a long way to go. We have loaned approximately \$265,000,000 to 395 borrowers throughout 42 states. Our 1955-56 program anticipates the loaning of approximately \$80,000,000, and we expect to be able to maintain approximately this level in the years ahead. In the various stages of preparation we have applications from more than 200 applicants—totaling approximately \$115,000,000.

Phone Rate Boost Upheld

THE Alabama Public Service Commission recently announced it was going to appeal a lower state (Montgomery circuit) court decision upholding a Southern Bell Telephone & Telegraph Company rate increase to the state supreme court.

Southern Bell appealed to the circuit court after the commission denied the higher rate request in April, 1954. Pending the court ruling, the increased rates were put into effect and Southern Bell posted bond to cover refunds in event the court ruled against the increase.

The commission found that Southern Bell's earnings were about 6 per cent, which the commission president said "is a reasonable and just return."



Regulatory Implications of Accelerated Depreciation

How many utility companies are taking advantage of the 1954 tax code provisions with respect to accelerated amortization on new plant (as distinct from accelerated amortization of such new plant as is certified to be needed for defense purposes)? Richard A. Rosan, attorney for the Columbia Gas System, sent a questionnaire to a large number of utility companies and asked how many of them had decided to use accelerated depreciation.¹ He reports that of the companies queried, about 43 per cent are using the new accounting policy, 28 per cent have decided not to do so, and 29 per cent are still undecided. Most of the latter are not opposed to adoption, hence many of them may eventually take advantage of the code.

The principal benefit to be obtained is, of course, a reduction in the amount of new equity financing necessary. There is some disposition, possibly debatable, to view the tax deferral as an interest-free loan from the government, designed to stimulate plant expansion. Those utilities which have decided not to use the new accounting method are said to feel that the problems involved, and the cost of the ac-

¹ Address before the annual convention of the American Gas Association, published in the *Commercial and Financial Chronicle* of October 27th.

Financial News and Comment

By OWEN ELY

counting processes, outweigh the benefits. (Some companies are awaiting issuance of detailed regulations by the Treasury, to determine the amount of accounting work involved.) Different rates of depreciation would have to be used for property constructed before the end of 1953 and that added later, so that these combined rates would confuse the picture. Some also feel that the law may be repealed (presumably in the event of a political turnover next year). One company thought that in the event of a future world war, the present years might be considered a base period for establishing "normal earnings" against which excess profits taxes would be applied—thus lower taxable income at this time might have serious aftereffects. Another and perhaps

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more potent reason was the fear that some commissions would try to pass the tax savings on to consumers.

REGARDING the choice of methods by the companies which have adopted accelerated depreciation, about four-fifths are using the declining balance method and about one-fifth the sum-of-the-years' digits method. The former permits more flexible treatment and gives the company the privilege of going back to straight-line depreciation at any time; also, it does not require the estimating of salvage value or recording the depreciation on individual units.

Those companies willing to use the digits method apparently were willing to do the additional bookkeeping in order to obtain larger cash savings over the near-term future.

As with accelerated amortization, the utility companies did not want to use the accelerated depreciation in their published accounting statements, since this might mean lowering of their rate bases. Mr. Rosan stated:

A most forceful reason (was that) to record the additional depreciation expense would nullify the stated intent of Congress to encourage investment in new facility.

Regarding the disposition of deferred taxes in the balance sheet, 46 per cent of the companies stated that they would place the amounts in a tax reserve account, while 13 per cent would consider it restricted surplus; 35 per cent would treat it in some other manner; and 6 per cent were undecided. Apparently a number of companies were following the same procedure as with accelerated amortization. The reserve method has been advocated by "an outstanding investment counseling firm," Mr. Rosan stated, since if placed in restricted surplus the amount might be used to increase the equity ratio. Even if placed in restricted surplus, the firm indicated that it would not consider the amount as a contribution to equity. On the other hand, those who favored placing it in restricted surplus held that if it were a reserve it might be applied against "cash requirements" in rate cases.

REGARDING the question as to whether the benefit of tax savings should be used to increase net income and share earnings, one company indicated that it expected to do this because (unlike accelerated amortization) accelerated depreciation should last for a considerable number of years.

Many companies are, of course, awaiting

CURRENT YIELD YARDSTICKS

	Nov. 18,	1955 Range		1954 Range		1953 Range	
	1955*	High	Low	High	Low	High	Low
U. S. Long-term Bonds—Taxable	2.84%	2.95%	2.62%	2.70%	2.41%	3.15%	2.70%
Utility Bonds—Aaa	3.12	3.19	2.93	3.13	2.86	3.43	3.01
Aa	3.16	3.22	2.99	3.19	2.92	3.59	3.07
A	3.31	3.34	3.12	3.37	3.11	3.72	3.23
Baa	3.49	3.49	3.37	3.72	3.37	3.94	3.50
Utility Preferred Stocks—							
High-grade	3.95	3.98	3.89	4.09	3.85	4.45	4.01
Medium-grade ..	4.22	4.32	4.19	4.51	4.17	4.87	4.43
24 Electric Utility Common Stocks ..	4.55	4.64	4.32	5.23	4.50	5.72	5.01
30 Gas Utility Common Stocks ..	4.52	4.70	4.29	5.22	4.64	5.66	4.74

* Approximate date.

Latest available Moody indices are used for utility bonds and stocks; Standard & Poor's index for government bonds.

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ing action by Congress, the Treasury Department, and the regulatory bodies before making final decisions. Only about eleven state commissions have thus far acted (Alabama, Florida, Illinois, Indiana, Louisiana, Maine, Michigan, Virginia, West Virginia, Ohio, and Kentucky). According to Mr. Rosan's address, the Florida commission has reversed its previous decision and now recognizes the reserve method for recording tax deferrals. Decisions in Ohio have been somewhat inconsistent.

Regarding the apparent desire of some state commissions to consider the tax saving not as a deferral, but as a permanent tax saving and hence the basis for downward rate adjustments, Mr. Rosan stated:

I think that this would be a very unfortunate result, since it would frustrate the purpose of Congress and would deprive the utility investor of the economic advantages which investors in nonregulated industry would have. In view of the apparent desire of a large segment of the industry to use accelerated depreciation, it should present a united front to the NARUC against this theory. The industry should make it clear that in accepting these commission orders which are primarily accounting orders, it feels that in rate cases there is no justification for using the tax reserve as a deduction from the rate base, or to consider the reserve as equivalent to cost-free capital. *However, if some companies are going to bring down the tax saving into net income, as apparently some companies intend to do, there will be substantial comfort and support lent to the theories of some regulators.* (Italics supplied.)

PRESUMABLY, Mr. Rosan referred to the report of the NARUC's committee on depreciation, recently sent to members.

(See *P.U.R. Executive Information Service*, weekly letter of November 4th.) The committee (in a 93-page document with many tables and charts) recommended that the increased depreciation accruals, as reported to the Treasury, should also be reported in the accounts as released to stockholders, regulatory agencies, and the public. The committee stated:

... In this way there will be a balancing of interests in that the customer will pay more for depreciation expense but in return will realize an equivalent credit in the rate base. . . . there will likely be many instances where utilities or commissions may not favor recording in the accounts the full additional depreciation allowance permitted by the code. In these situations, the book allowances for depreciation may be increased, by some systematic procedure consistently applied in harmony with the facts of the particular circumstances.

There may also be instances where it would be reasonable to base the amount of additional depreciation charged upon the tax reduction effected through the liberalized depreciation provisions.

Rapid Development of Underground Gas Storage

STORAGE of natural gas in underground reservoirs has increased more than ten-fold in the past decade. Piped in during mild weather when demand is low, this "warehoused" gas will provide heat this winter for 15,000,000 homes in the United States. (See chart on page 955.)

One of the largest storage projects is the \$25,000,000 Herscher Dome in Illinois, developed by Natural Gas Storage Company, a subsidiary of Peoples Gas Light & Coke Company. At Herscher gas

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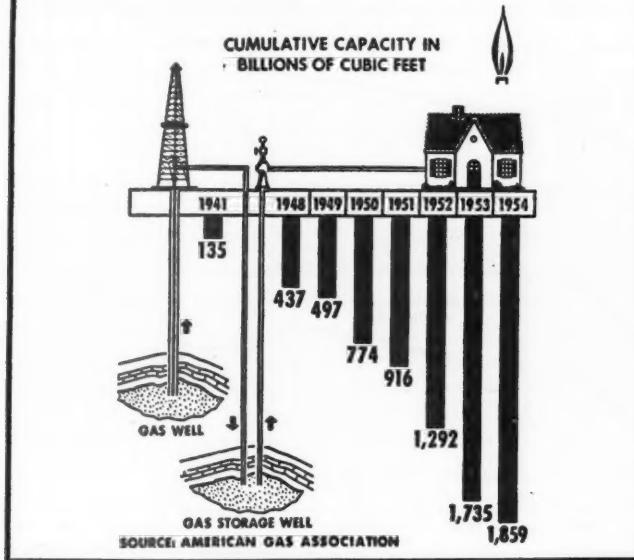
is stored one-third of a mile underground, in a geological formation similar to that in which oil or natural gas is found, but which instead contains salt water. The water is pushed back as gas is injected, forming a bubble at the top of the dome; the gas remains stored there until such time as it is needed to supply the winter peak loads of distributing utilities.

Although there has been some difficulty at Herscher due to leakage of gas through old abandoned oil and water wells, a "gathering system" with a daily capacity of 17,000,000 cubic feet was completed this summer, which recovers this leaking gas and thus permits fuller operation of the project. The Storage Company in August received FPC permission to expand daily deliveries to 150,000,000 cubic feet, or about one-third of estimated peak-day, space-heating requirements of Peoples Gas for the 1955-56 winter. In the next heating season it is estimated that Herscher will supply 45 per cent of these require-

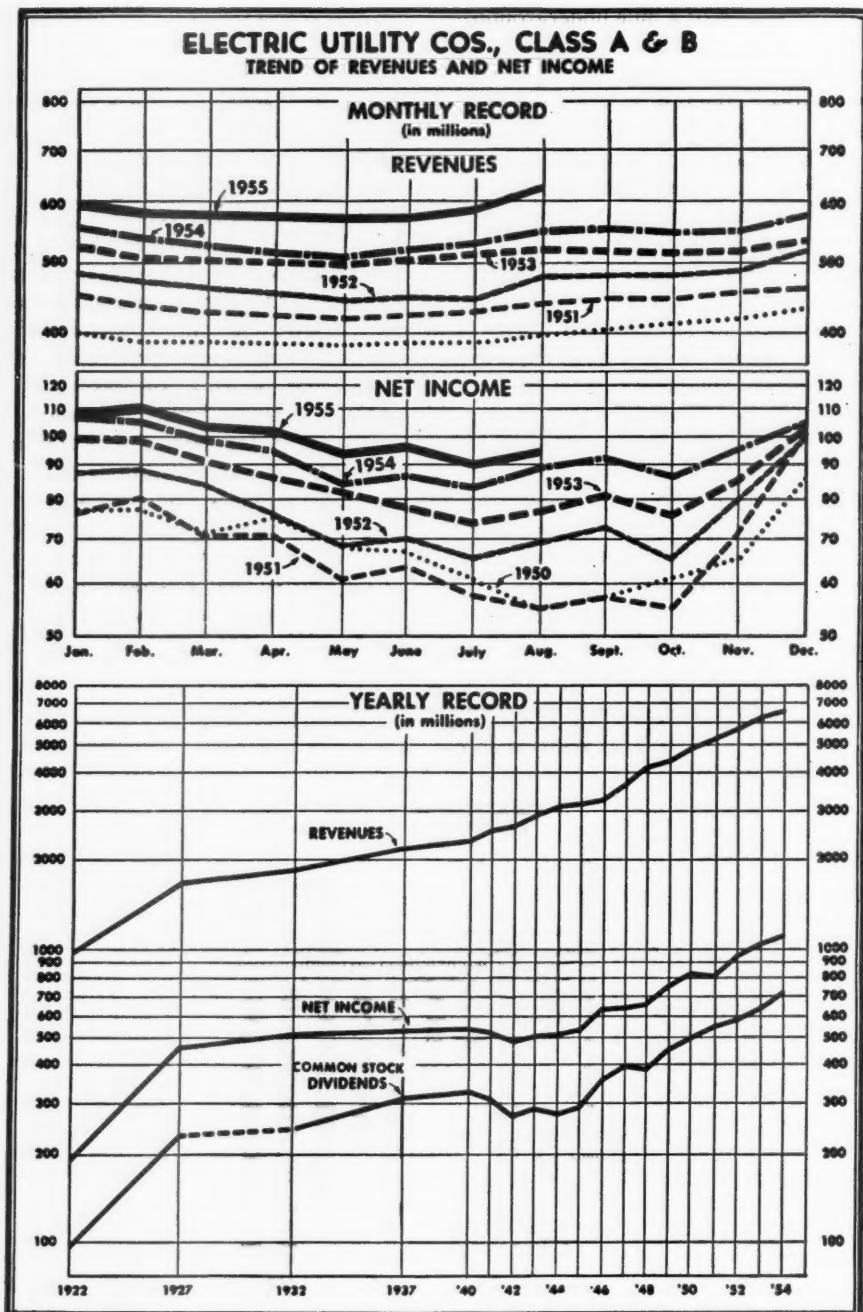
ments. Peoples Gas is continuing its studies of other projects to store gas in underground limestone caverns and in depleted (or soon to be depleted) gas and oil fields along the route of the Texas Illinois Pipeline, one of its two suppliers.

PEOPLS GAS was recently authorized to add 40,000 additional residential space-heating customers, bringing the total to about 213,000. Since there are about 1,200,000 dwelling units in the city of Chicago, there is ample room for expansion. In fact, the company now has 68,000 customers in single family residences who have applied for service (in addition to the 40,000 now being connected) and also has on file requests from over 40,000 multiple-family dwellings and commercial and industrial establishments. At present rates, it is estimated that a 6-room house in the service area can normally be heated with gas for about \$150, compared with \$195 with oil.

UNDERGROUND GAS STORAGE



PUBLIC UTILITIES FORTNIGHTLY



FINANCIAL NEWS AND COMMENT

The new facilities at Herscher will also aid Northern Illinois Gas Company to increase its house-heating load.

Public Service of Indiana Denied Rate Increase

PUBLIC SERVICE COMPANY OF INDIANA, INC., recently filed an appeal in the Hendricks circuit court to set aside the October 28th decision of the public service commission of Indiana, denying a rate increase. The company indicated in its appeal that the revised rates are necessary to protect its credit position and to bring earnings up to a level fair to present investors and adequate to attract necessary new capital.

In commenting on the commission's denial of the petition, President Gallagher pointed out that in the past ten years the state of Indiana has enjoyed industrial expansion greater than the average for the country. This has been largely accomplished by the reputation of the state for fair treatment, and investors have purchased many millions of dollars' securities in Indiana companies.

The commission set up 5.4 per cent as a "fair return." Ignoring the heavy inflation which has taken place in the past ten years, it allowed a "fair value" only slightly in excess of original cost. According to Mr. Gallagher, the order brushed aside the investment of present security holders with this statement:

Present holders of Service Company securities are free to dispose of them in a free market on the day of their own choice and, therefore, are not in any way subjected to investment servitude by rate of return determinations by this commission.

Mr. Gallagher added:

This order has already seriously af-

fected the value of the securities of utilities located in Indiana. Since the commission order of October 28, 1955, the loss in market value in the capital stock of this company is over \$15,000,000. This order obviously tends to destroy the confidence of the investing public, a confidence which has been built over a period of many years.

IN arriving at a rate base figure of \$302,500,000 compared with net plant account per books of about \$289,000,000, the commission made scant allowance for inflationary factors presumed to be included in a "fair value" rate base, and minimum allowance for other factors in the rate base. Pointing out that 61 per cent of plant had been constructed at the "high prices prevailing since 1949 . . . the present original cost of the property has been greatly influenced and built up at the high costs of construction since the last war." The commission excluded some \$13,000,000 work in progress on the grounds that the credit for interest on construction gives the company "a return on this property before it goes into service." (Such a credit is purely a bookkeeping item, and does not represent any cash income.) Some \$12,000,000 for materials and supplies was presumably allowed for in the final rate base but no provision for working capital was considered necessary.

REGARDING fair return, the commission used "cost of capital" studies, of which there were two opposing methods of computation, based on (1) earnings-price ratio and (2) spot-date price-yield ratio. A company witness, Frank Travers, testified that the company's return on capital was 5.4 per cent compared with an average of 5.9 per cent for 105 electric operating companies. He also testified that in the last four years the company has earned only 3.8 per cent on its additional

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investment. Mr. Travers estimated new capital cost at 5.29 per cent and historical cost (1941 to date) at 6.05 per cent. Weighting the latter three times as much as the former, he arrived at an average of 5.89 per cent. Allowing for "a reasonable amount of earnings beyond the bare-bones cost of money" in order to "retain stockholder interest" as provided in the state law, he arrived at 6.3 per cent of current capitalization as a necessary fair return needed to attract new funds. A commission witness, Harry Sauvain, also used historical cost of capital figures but only for the years 1951-54. Based on cost of recent securities issues to the company, he arrived at an historical cost of 4.76 per cent, with current cost around 5.25 per cent.

The commission gave no weight to Travers' testimony, rejecting his fifteen years' study in favor of Sauvain's five

years. His allowance for "attrition" was also discarded as unsupported statistically. It accepted the Sauvain cost-of-capital figure of 5.25 per cent but made an adjustment for the depressing effect of large offerings on spot prices, and therefore allowed a return of 5.4 per cent. This was applied to the fair value rate base of \$302,500,000 to produce a fair return of \$16,335,000 per annum.

THE next question was as to the amount of current net income to be compared with this figure. Actual net operating income for the year ended May 31, 1955, was only \$16,010,821, but after a long study of nonrecurring costs, tax accruals, and previous rate increases, the commission adjusted this figure upward to \$16,541,914, and on this basis refused any rate increase. It also dismissed as irrelevant evidence regarding economic trends.



RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

1954 Rev. (Mill.)	11/16/55 Price About	Divi- dend Rate	Appro. Yield	Share Earnings*			Price- Earns. Ratio	Div. Pay- out	Appro. Com. Stock Equity	
				Cur- rent Period	% In- crease	12 Mos. Ended				
<i>Pipelines</i>										
\$ 4 O	Alabama-Tenn. Nat. Gas	22	\$.60	2.7%	\$1.60	10%	Sept.	13.8	38% 42%	
13 O	Commonwealth Nat. Gas	31	1.20	3.9	2.40	25	Dec.	12.9	50 30	
14 O	East. Tenn. Nat. Gas	11	.60	5.5	.54	43	Sept.	20.4	111 14	
44 S	Mississippi Riv. Fuel	29	1.40	4.8	1.87	1	Sept.	15.5	75 54	
48 S	Southern Nat. Gas	36	1.80	5.0	2.16	16	Sept.	16.7	83 26	
143 O	Tenn. Gas Trans.	34	1.40	4.1	1.51	14	June	22.5	93 20	
150 O	Texas East. Trans.	28	1.40	5.0	1.74	NC	Mar.	16.1	80 23	
68 O	Texas Gas Trans.	25	1.00#	4.0	1.68	8	Sept.	14.9	59 27	
63 O	Transcont. Gas P. L.	37	1.40	3.8	2.11	8	June	17.5	66 21	
Averages				4.3%			16.7		73%	
<i>Integrated Companies</i>										
122 S	American Nat. Gas	59	\$2.20	3.7%	\$2.88	2%	Sept.	20.5	76% 39%	
30 O	Colo. Interstate Gas	57	1.25	2.2	3.99	87	Sept.	14.3	31 29	
260 S	Columbia Gas System	16	.90	5.6	1.11	39	June	14.4	81 42	
9 O	Commonwealth Gas	6	(a)	4.0a	.55	13	Dec.	10.9	— 69	
10 A	Consol. Gas Util.	12½	.75	6.0	.93	D5	July	13.4	81 59	
213 S	Consol. Nat. Gas	34	1.50	4.4	2.69	12	Sept.	12.6	56 66	
144 S	El Paso Nat. Gas	46	2.00	4.3	2.62	24	Sept.	17.6	76 22	
34 S	Equitable Gas	27	1.40	5.2	1.92	3	Sept.	14.1	73 31	
12 O	Kansas-Nebr. Nat. Gas	32	1.20	3.8	1.30	D24	Dec.	—	92 32	
78 S	Lone Star Gas	30	1.40	4.7	2.12	23	Sept.	14.1	66 44	
22 S	Montana-Dakota Utils.	26	1.00	3.8	1.36	1	Sept.	20.6	73 31	
18 O	Mountain Fuel Supply	28	1.20	4.3	1.50	NC	Sept.	18.7	80 59	
64 S	National Fuel Gas	20	1.00	5.0	1.56	13	Sept.	12.8	64 58	
89 S	Northern Nat. Gas	45	2.20	4.9	3.23	35	June	13.9	68 33	

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37	S	Oklahoma Nat. Gas	23	1.20	5.2	1.80	11	Aug.	12.8	67	32
87	S	Panhandle East, P. L.	80	3.00#	3.8	4.63	NC	June	17.3	65	34
10	O	Pennsylvania Gas	....	28	1.00	3.6	1.79	126	Dec.	15.6	56	77
146	S	Peoples Gas Lt. & Coke	....	155	7.00	4.5	10.43	4	Sept.	14.8	67	37
27	O	Southern Union Gas	....	24	1.00	4.2	1.33	39	Dec.	18.0	75	38
215	S	United Gas Corp.	....	32	1.50	4.7	2.10	—	Sept.	15.2	71	42
Averages				4.4%				15.3				69%
<i>Retail Distributors</i>												
23	A	Alabama Gas	....	38	\$1.28	3.4%	\$2.01	24%	Sept.	18.9	64%	44%
42	A	Ark.-Louisiana Gas	....	18	.50	2.8	.61	15	June	—	82	49
36	O	Atlanta Gas Light	....	29	1.20	4.1	2.20	29	June	13.2	55	39
5	O	Berkshire Gas	....	14	.80	5.7	.97	111	June	14.4	82	37
4	O	Bridgeport Gas Light	....	27	1.40	5.2	2.11	40	Sept.	12.8	66	45
4	O	Brockton-Taunton Gas	....	12	.64	5.3	.65	20	Dec.	18.5	98	44
46	S	Brooklyn Union Gas	....	34	1.80	5.3	2.53	—	Sept.	13.4	71	46
29	O	Central Elec. & Gas	....	15	.80	5.3	1.35	NC	Aug.	11.1	59	16
10	O	Central Indiana Gas	....	15	.80(b)	5.3	.99	60	June	15.2	81	62
4	O	Chattanooga Gas	....	6	.30	5.0	.28	—	May	21.4	107	43
51	O	Gas Service	....	26	1.36	5.2	1.84	6	Sept.	14.1	74	46
6	O	Hartford Gas	....	37	2.00	5.4	2.97	NC	Feb.	12.5	67	52
2	O	Haverhill Gas	....	49	2.60	5.3	3.05	3	Sept.	16.0	85	71
15	O	Houston Nat. Gas	....	24	1.00	4.2	1.82	D12	July	13.2	55	22
14	O	Indiana Gas & Water	....	19	.92	4.8	1.37	18	Sept.	13.9	67	46
6	A	Kings Co. Lighting	....	15	.90	6.0	1.11	D26	Sept.	13.5	81	27
38	S	Laclede Gas	....	14	.72	5.1	.96	17	June	14.6	75	38
3	O	Michigan Gas Utils.	....	21	.90	4.3	1.24	23	Dec.	16.9	73	41
3	O	Mid South Gas	....	11	—	—	.50	—	Dec.	22.0	—	30
31	O	Minneapolis Gas	....	26	1.25	4.8	1.63	16	June	16.0	77	44
13	O	Mississippi Valley Gas	....	19	1.00(d)	5.3	1.57	3	June	12.1	64	29
8	O	Mobile Gas Service	....	22	.90	4.1	1.79	32	June	12.3	50	31
7	O	New Haven Gas	....	30	1.60	5.3	2.58	38	Dec.	11.6	62	64
9	O	New Jersey Nat. Gas	....	23	1.00E	4.3	1.76	35	June	13.1	57	26
62	O	North, Illinois Gas	....	20	.80	4.0	1.13	NC	Sept.	17.7	71	49
7	O	North Penn Gas	....	17	1.00	5.9	1.22(g)	NC	Mar.	13.9	82	53
183	S	Pacific Lighting	....	40	2.00	5.0	2.61	37	Sept.	15.3	77	44
12	O	Pioneer Natural Gas	....	30	1.32	4.4	1.88	28	June	16.0	70	47
12	O	Portland Gas & Coke	....	29	.90	3.1	2.23	47	Sept.	13.0	40	41
2	O	Portland Gas Light	....	14	.75	5.4	1.08	19	Dec.	13.0	69	24
8	A	Providence Gas	....	10	.48	4.8	.52	27	Dec.	19.2	92	62
3	A	Rio Grande Valley Gas	....	3	.12	4.0	.26	15	June	11.5	46	62
6	O	Seattle Gas	....	14	.40	2.9	.65	D11	June	21.5	62	60
3	O	South Atlantic Gas	....	12	.70	5.8	.88	D5	Dec.	13.6	80	32
8	O	South Jersey Gas	....	25	1.20	4.8	1.58	3	Sept.	15.8	76	52
23	S	United Gas Improvement	....	36	2.00	5.6	2.07	D7	Sept.	17.4	97	63
33	S	Washington Gas Light	....	40	2.00	5.0	2.65	10	Sept.	15.1	75	42
6	O	Western Kentucky Gas	....	13	.60	4.6	1.06	14	Dec.	12.3	57	38
Averages				4.8%				15.0				72%



RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER UTILITIES

1954 Rev. (Mill.)	11/16/55 Price About	Divi- dend Rate	Approx. Yield	Share Earnings*			Price- Earns. Ratio	Div. Pay- out	Appro- x. Com. Stock Equity						
				Cur- rent Period	% In- crease	12 Mos. Ended									
<i>Communications Companies</i>															
<i>Bell System</i>															
\$4,784	S	Amer. T. & T. (Cons.)	....	182	\$9.00	4.9%	\$12.68**	7%	Aug.	14.3	71%	65%		
220	A	Bell Tel. of Canada	....	51	2.00	3.9	2.43	5	Dec.	21.0	82	63		
37	O	Cin. & Sub. Bell Tel.	....	89	4.50	5.1	5.16	26	Dec.	17.2	87	100		
163	A	Mountain Sts. T. & T.	....	129	6.60	5.1	8.56	24	Sept.	15.1	77	74		
259	A	New England T. & T.	....	137	8.00	5.8	7.78	D6	June	17.6	103	64		
632	S	Pacific Tel. & Tel.	....	137	7.00	5.1	10.04**	21	Aug.	13.6	70	58		
81	O	So. New England Tel.	....	40	2.00	5.0	2.18	8	Dec.	18.3	92	60		
Averages				5.0%			16.7			83%					

PUBLIC UTILITIES FORTNIGHTLY

Independents

2	O	Calif. Interstate Tel.	13	\$.70	5.4%	\$.77(f)	NC	Dec.	16.9	91%	34%
11	O	Calif. Water & Tel.	19	1.00	5.3	1.34	14%	July	14.2	75	36
12	O	Central Telephone	19	.90	4.7	1.83	31	June	10.4	49	23
2	O	Chenango & Unadilla Tel.	22	1.20	5.5	1.31	D34	June	16.8	92	48
35	O	Continental Tel.	32	1.00	3.1	1.79	37	Sept.	17.9	56	23
3	O	Florida Telephone	18	.80	4.4	1.07	40	Dec.	16.8	75	41
143	S	General Telephone	39	1.60	4.1	2.31	36	Sept.	16.9	69	34
5	O	Inter-Mountain Tel.	14	.80	5.7	.92	26	Dec.	15.2	86	54
17	S	Peninsular Tel.	39	1.80	4.6	2.28	15	Sept.	17.1	79	46
16	O	Rochester Tel.	18	1.00	5.6	1.63	47	Sept.	11.0	61	31
3	O	Southeastern Tel.	17	.90	5.3	1.48	38	June	11.5	61	52
7	O	Southwestern Sts. Tel.	19	1.12	5.9	1.31	18	June	14.5	86	34
24	O	United Utilities	22	1.20	5.5	1.60**	—	June	13.8	75	33
1	O	Western Carolina Tel.	15	.70	4.7	1.18	17	Dec.	12.7	59	52
10	O	West Coast Telephone	19	1.00	5.3	1.27	D10	June	15.0	79	42
222	S	Western Union Tel.	21	1.00	4.8	1.89**	12	Dec.	11.1	53	81
Averages											
5.0%											
14.5											
72%											

Transit Companies

27	A	Capital Transit	10	\$.80	8.0%	\$.73	D23%	Mar.	13.3	107%	(e)
13	O	Cincinnati Transit	5	.30	6.0	.13	D86	Dec.	—	231	41%
9	O	Dallas Transit	7	.35	5.0	1.10	21	Dec.	6.4	32	71
227	S	Greyhound Corp.	15	1.00	6.7	1.40	19	Mar.	10.7	71	44
25	O	Los Angeles Transit	16	1.00	6.3	.99	D21	Dec.	16.2	99	87
29	S	Nat'l. City Lines	22	1.60	7.3	2.76	17	Dec.	8.0	58	75
26	S	N. Y. C. Omnibus Corp.	25	2.00	8.0	2.71E	NA	June	9.2	74	85
13	O	Niagara Frontier Transit	8	.15	1.9	.09	D95	Dec.	—	167	82
73	O	Phila. Transit	15	.30	2.0	Deficit	—	Dec.	—	—	24
7	O	Rochester Transit	4½	.40	8.9	.44	D23	Dec.	10.2	91	38
25	O	St. Louis P. S.	14	1.40	10.0	.79	D35	Dec.	17.7	177	90
17	S	Twin City R. T.	16	1.60	10.0	Deficit	—	Dec.	—	—	43
23	O	United Transit	5	—	—	.53	D28	Dec.	9.4	—	44
Averages											
6.7%											
11.2											
113%											

Water Companies

Holding Companies

34	S	American Water Wks.	9	\$.50	5.6%	\$.91	3%	June	9.9	55%	16%
4	O	N. Y. Water Service	63	.80	1.3	2.10	50	Sept.	—	38	32

Operating Companies

4	O	Bridgeport Hydraulic ..	30	\$ 1.60	5.3%	\$ 1.49	D5%	Dec.	20.1	107%	53%
11	O	Calif. Water Service	42	2.20	5.2	2.82	2	Sept.	16.0	84	29
2	O	Elizabethtown Water	135	5.00	3.7	6.34	D5	Dec.	21.3	79	—
8	S	Hackensack Water	42	2.00	4.8	3.26	D8	Dec.	12.9	61	40
5	O	Jamaica Water Supply	37	1.80	4.9	2.93	4	Sept.	12.6	61	22
4	O	New Haven Water	60	3.00	5.0	4.42	76	Dec.	13.6	68	58
1	O	Ohio Water Service	25	1.50	6.0	1.94	4	Sept.	12.9	77	44
6	O	Phila. & Sub. Water	35	1.00(e)	2.9	2.45	—	Dec.	14.3	41	22
2	O	Plainfield Union Wt.	59	3.00	5.1	4.00	8	Dec.	14.8	75	—
3	O	San Jose Water	48	2.00	4.2	3.41	42	Sept.	14.1	59	—
9	O	Scranton-Springbrook	18	.90	5.0	1.35	2	June	13.3	67	35
4	O	Southern Calif. Water ..	14	.65	4.6	1.04	19	Sept.	13.4	62	—
3	O	West Va. Water Serv.	33	1.40	4.2	1.31**	D7	Sept.	—	107	17
Averages											
4.7%											
14.9											
73%											

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. *Earnings are calculated on present number of shares outstanding, except as otherwise indicated. **On average shares. #—A 2 per cent stock dividend was also paid December 31, 1954, and in previous year. (a)—Paid 4 per cent stock dividend. (b)—Paid 10 per cent stock dividend. (c)—Paid 5 per cent stock dividend. (d)—Paid 25 per cent stock dividend. (e)—Company to be liquidated. (f)—Nine months to December 31st. (g)—Estimated after eliminating nonrecurring items. NC—Not comparable. E—Estimated. NA—Not available.



What Others Think

Frequent Fallacies about Utility Economics

PUBLIC utility personnel and regulatory commissioners well know that economic facts about utility operations are often misunderstood and occasionally deliberately distorted. A good example of setting the record straight on some well-worn, oft-repeated fallacies was recently seen in the *Los Angeles Times*. These were the answers that W. C. Mullendore, chairman of Southern California Edison Company, made to some remarks earlier delivered by Senator Wayne Morse (Democrat, Oregon).

Morse said citizen-owned utilities, unlike competitive enterprises, do not themselves pay taxes, but pass them along to their customers.

Mullendore said: In fact, these utilities pay taxes in precisely the same way that other businesses pay taxes, and, indeed, just as the Senator pays his personal taxes. Does the Senator mean to say that, since his salary is paid by the taxpayers, therefore the Senator is escaping his taxes on his salary by passing them along to the taxpayer? He stated further:

Does the Senator know of any business that falsifies its books of account by failing to include taxes as one of its costs of producing goods or furnishing services? Of course, each and every consumer, except the consumer who buys from a tax-exempt operation such

as a government-owned utility, pays taxes when they buy goods and services in the market, because the taxes of producers and distributors must be included in the price of their product or they would go broke.

MORSE said taxes are a part of a utility's rate base.

Mullendore stated:

As a lawyer and a public official who presumes to advise the public on such matters, the Senator should know that that statement is untrue.

Most of the taxes paid by any business, including utilities, are operating costs, and hence the annual taxes paid by utilities are not included in their rate base but rather in their operating expenses.

Morse said utilities are guaranteed a return. Mullendore said:

Utilities are not only not guaranteed a return, but they are not, as the government-owned utilities are, even guaranteed against a loss.

The rates of the citizen-owned utilities are fixed by governmental agencies, and their business is regulated by public utility commissions (again as government-owned utilities are not), but there is positively no guaranty of a return.

PUBLIC UTILITIES FORTNIGHTLY

Since most of the electric energy supplied by electric utilities is sold to industrial and commercial concerns, and since in a depression such sales usually fall off because of curtailed production, utilities like other businesses often are forced to operate at a loss over a considerable period of time.

Such was the experience in this country, particularly in the 6-year period from 1930 to 1936, and there is no more of a guaranteed return today than there was at that time.

MORSE intimated that projects built by the government return the taxpayers' investment and the interest thereon, and that the United States' taxpayers in general are not compelled to share any of these costs.

Mullendore said :

This is a promise often made in advance of the building of such projects, but it is a promise which never yet has been kept.

The Tennessee Valley Authority projects are a good example. They have paid only a fraction of the interest or of the taxes which were properly chargeable to their projects. Of course, the customers of these government-owned utilities thus get the benefit of "cheaper" electricity in many cases, but this discriminatory benefit is at the expense of other taxpayers and other utility customers who have to make up for the taxes and other costs thus escaped by the exemption of government-owned utilities.

The total tax bill and the total interest bill are not lessened by government ownership of these power projects—they are just passed along to the general taxpayer.

There is indeed a "give-away" issue of serious proportions involved in these

controversies as to whether the politicians, using tax funds, or citizens, using their savings, shall construct and develop these great hydro projects. The dangerous and wrongful "giveaway" occurs when the earnings of all the people are taxed away by the federal government and diverted to the exclusive use of a favored few who thus obtain so-called "cheap power" through tax exemption and the free use of capital funds taken by force from the earnings of the great body of citizens who receive no benefit from this subsidized power.

The citizens who are responsible for the tax-paying, regulated, public service enterprises are conducting them under the American plan. These much-maligned citizen-owned and -managed enterprises are constructed and operated under the American—not the European-socialistic—plan.

They are financed from the savings of millions of people who have voluntarily entrusted those savings to the managers of these enterprises. Public good will and confidence are indispensable assets of these citizen-owned utilities.

The responsible managers and employees of these tax-paying, American-plan utilities understandably resent the lying abuse and misrepresentation which tend to destroy public confidence in the institutions to which they are devoting their lives.

Political footballs seem to be very scarce and in great demand, but surely those who seek public office through promotion of socialistic projects at the taxpayers' expense are exceeding the limits of common decency in their kicking around of this particular football.

SUBSEQUENTLY two other letters appeared in the *Times* in connection with

WHAT OTHERS THINK

this statement. Lloyd W. Jacobs writes:

... I do not find Mr. Mullendore's refutation of Senator Morse's statements at all palatable.

From his letter it would appear that Mr. Mullendore is much more concerned with defending the private power interests than he is with the welfare of the general public where generation and distribution of electrical energy are concerned.

Without going into a lengthy breakdown on the subject I would like to offer the operation of the Los Angeles publicly owned water and power system as evidence that public ownership is, and can be, preferable to private ownership.

If Mr. Mullendore will hark back to the days when almost all power (electric) was generated and sold by private interests he will learn many of the facts which created a tremendous demand for public ownership. Watered stock, ruthless manipulation by big financial interests, exploitation of a helpless public, all demonstrated what we could expect when a vital human need was owned and operated by those who were concerned with profit and wealth only.

The statement that public operation does not help the taxpayer is not conclusive. Much can be said on both sides of the question. Offering public control of rates through regulatory bodies entirely ignores the fact that such bodies are bound to grant a utility rate which will pay the utility a profit—and that on much of their own bookkeeping.

THE last comment about commissions being "bound" to allow utilities to make a "profit" on "their own bookkeeping" would probably astonish if not amuse regulatory authorities. But it is typical of the widespread misunderstanding of how the regulatory process works.

To this letter Munroe Howard replies:

Lloyd W. Jacobs falls right into the trap the Senator from Oregon has so often set.

Mr. Jacobs makes much of the fact that Mr. Mullendore is more concerned with a defense of private power than with the general public welfare. In this he is probably correct.

However, to assume that Wayne Morse is at all concerned with the general public welfare is a grave mistake. The Senator is probably less concerned with the general public welfare than any other political figure in the West.

But he is very much concerned with the centralization of government power, the enlargement of a government bureaucracy not subject to the elective will of the people, and the socialization of American life as quickly as possible.

If, in order to achieve his ends, Senator Morse finds it effective to give lip service to a pretended interest in the general public welfare, he will do so gladly. For the gentleman from Oregon is a charter member of that school of American political thought that believes firmly in paternalism in government, and his intellectual right to decide for the public what is proper for the public to have.

MURRAY HOWARD had the honor of the last word in this particular exchange of letters. But the exchange could doubtless go on and on in many other cities and probably will during the months of political controversy ahead when the so-called "public power issue" gets hotter if not clearer. Mr. Jacobs got this much advice: However much you dispute with the Mullendores of the business world, don't ever be beguiled by the Wayne Morses of American politics, who deliberately try to confuse the record and deceive the public.

What Every Little Company Should Do

THOSE Americans who recognize that they have a stake in the future of the nation's privately owned public utilities are also apt to recognize that the history of the last twenty years, as seen from their viewpoint, has not been all sunshine. They may also suspect that the future holds few beds of roses. To these Americans lies the challenge of recruiting from the ranks of those who do not recognize the benefits brought them by private enterprise, of which the privately owned utilities may well be the most beleaguered example. To C. Hamilton Moses, chairman of the board of the Arkansas Power & Light Company, this obligation is the challenge of the centuries. At the annual convention of the United States Independent Telephone Association, meeting in Chicago last month, Mr. Moses made some interesting comments on how he thinks public utility officials should go about meeting their "date with destiny."

To sketch the problem and put it in historical context, he said:

... During this past twenty years our people have gradually surrendered their personal liberties for various personal doles. Our states have seen their sacred sovereignty silently settle in Washington in exchange for various types of political pottage. We were told these rights were being surrendered in the interest of national defense and, when the war was over, these rights would be restored. Yet, some ten years have passed and not a single right has been returned, and this great nation . . . still face(s) scattered controls and require(s) various government subsidies. We do not yet know whether our unprecedented American economy can stand on its own feet.

We are told that America's greatest

weakness is our people's unbelief in their own institutions and the growing fear of their own government. In our state we saw a chain of 50 banks close one Monday morning. . . . This need not have happened—except our people lost faith in these institutions and in those who directed their destiny.

Why was American business so long in the doghouse? Why did it take the long arm of the federal government and the power of the Congress to force . . . utilities to clean up our own business? Why has it taken us so many years to serve ourselves back into the confidence of the people?

Why has government in business—in competition with its own citizens—been continuously on the increase? Is it for the public good—and if not—why can't you so sell the people?

To suggest the extent of reappraisal and rededication that is today necessary, and the far-reaching adjustments that will have to be made, Mr. Moses recalled that the federal government is now, among other things, the largest single electric power producer in the country, the largest insurer, the largest lender, the largest landlord, the largest tenant, the largest holder of grazing land and of timberland, the largest owner of grain, the largest warehouse operator, the largest shipowner, and the largest truck fleet operator. Even so, with the best-trained sales force in existence, the public utility official maintains, there is no logical reason why American business should not be able to sell itself and the private enterprise system, despite the enormity of the task.

According to Mr. Moses, private industry can best show that it can build a better prosperity than any federal authority by

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Courtesy, Richmond Times-Dispatch

"NOW IF THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY GETS ANGRY WITH ME FOR SELLING TWO SHARES OF STOCK, YOU TELL THEM I NEEDED A LITTLE CHRISTMAS MONEY."

taking an abiding interest in the welfare of its local communities. As an example of this interest in operation, he cited an Arkansas community building plan in which business leadership has taken a leading rôle. A rural development program was organized, in which more than 800 rural communities fixed goals and blueprints for the future and went to work. Contests were run offering prizes to those

who did the best job of building better rural and town communities, "always with particular emphasis on social, educational, cultural, and spiritual values."

As to the matter of rural electrification, Mr. Moses feels that cost formula should be secondary to the community interest in the thinking of the electric utility. Rural lines that did not at first pay their way, eventually brought in dividends. He states

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that in Arkansas Power & Light territory, the government has not built one mile of competing line, and the company serves every rural electric co-operative in the area.

THE interest of the private power company in the communities it served paid dividends, in Mr. Moses' view, as follows:

In Jackson county, Arkansas, one strong rural electric co-operative determined to create a public utility district to condemn and take over all the electric property in that county. Our property wasn't for sale. The issue went to the ballot box. We had to go to the people. The co-op had the backing of the public power proponents of the nation—all the way from Washington down to Newport, Arkansas.

At 7.30 every morning, when you turned on the radio, the announcer would say, "The next voice you will hear is the President of the United States." Then President Truman would come on the air for the purpose of influencing the people of Jackson county to vote for that public utility district. Then, the announcer would say, "The next voice is the Secretary of the Interior in Washington." Then again, "The next voice is that of Senator Lister Hill of Alabama"—all pleading with the people of one Arkansas county to vote for a public utility district to condemn and take over private property. . . . Our (company) had previously helped organize 14 rural development programs in this Jackson county. Those people . . . recall(ed) that the power company men had helped them set up their community development program and had worked with them in various community undertakings. . . . (T)his work and these rural lines paid off in a big way. The people of that county

voted 4½ to 1 against the public utility district, regardless of Senator Lister Hill and Secretary Chapman and even President Truman.

MR. MOSES thinks that business leadership has been giving too much attention to material things, and that it suffers from a too narrow balance-sheet vision. He urges a more active concern in local citizenship activities, in state development organizations, and in community-building programs. He says:

I wonder if we are selling too much the bigness of business rather than the goodness of the business? I wonder if we are selling too much our profits from the business rather than its benefits to the citizen? Mr. Average Citizen hears about one company doing a \$10 billion business in one year—about top executives drawing tremendous salaries. Is it not natural for him to ask, Am I getting my share of all this prosperity? If these big folks do not care about us average citizens, will we have to use our own power?

I wonder if any company represented here would even consider giving a job to a man over forty-five years old? I wonder if anyone here will consider working out some job for any of our physically handicapped—or do we just turn them out on a cold world, and then complain because we have to pay taxes for old-age pensions?

Mr. Moses suggests in conclusion that when any nation values anything more than a deep and abiding interest in the welfare of its citizens, its future is insecure. Business leaders in his view have an obligation to show these citizens that they have at their disposal, in enlightened private enterprise, the best means of providing for that welfare.

WHAT OTHERS THINK

Competition in the Air-conditioning Industry

NATURAL gas industry manufacturers believe that they can give the nation's electric industry a run for its money when it comes to making and selling air-conditioning equipment. Research in the field of gas air-conditioning equipment has encouraged these manufacturers (one of which is The Coleman Company, Inc., of Wichita, Kansas) to believe that gas can win the battle of fuels for the air-conditioning load. Sheldon Coleman, president of this company of manufacturers, has pointed up the stake the gas industry has in this area of development in a speech made before the Southern Gas Association in New Orleans.

More and more leaders of the industry recognize, he said, that it is not just the summer cooling load that is at stake, but the gas-heating load as well, for the entire gas-heating load would be threatened, they believe, unless they can dominate the growing market for year-round, whole-house air conditioning.

On the future of whole-house air conditioning and its advantages, Mr. Coleman has this to say:

... whole-house air conditioning is still in its infancy with less than one per cent saturation, although doubling in volume each year.

Each student of home trends, every analyst of business movements, predicts the time will come when the majority of homes will have year-round air conditioning. The only point on which the experts vary is how soon. Some say five years, some ten, others twenty. Some think the new home market will develop the quickest. Others argue that the huge home modernization market has the larger potential. But all agree that America will air condition.

Year-round climate control is inevi-

table because the home owner is beginning to understand how it will raise his standard of living. He is beginning to understand that it will do more than warm his house in winter and cool it in summer. In my judgment, the collateral values are just as important as the basic properties of heating and cooling. For example:

Air conditioning means better health. Your heart works harder at a 95-degree temperature than at 75. People will live longer in air-conditioned homes.

Air conditioning means more happiness. Tensions are reduced. Tempers flare less often. Life is more relaxed. One authority goes so far as to predict a sharply reduced divorce rate among families living in air-conditioned homes.

Air conditioning means a quieter, more restful home. Windows are kept closed. Outside fresh air is pulled in through filters in controlled amounts.

Air conditioning means a cleaner home. It means less work, less dusting, less laundering, less redecorating.

Families in air-conditioned homes are more popular. They have more friends. Air conditioning has definite social prestige value—like a new car with a famous name.

Air conditioning reduces humidity. Not only does it mean greater comfort but it avoids the problem of mold, mildew, and deterioration from dampness of clothing, rugs, draperies, and shoes.

THESE, Mr. Coleman insists, are only a few of the advantages and extras that show why a family that has once experienced living in a house that is fully air conditioned would never want to give it up.

Assuming that Americans will fully

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air condition, the market for equipment will boom. According to the speaker, the Air Conditioning and Refrigeration Institute (ARI) predicts that by 1963 sales of complete year-round systems will be at a rate of 1,250,000 units per year. The approximate price per system (in many cases it will include heating as well as cooling, plus an air distribution system) will average between \$1,000 and \$1,500. So, if ARI figures are correct, Mr. Coleman declares, some manufacturing industry will enjoy a market exceeding a billion and a half dollars each year. No other consumer durable goods industry will exceed this volume except the automobile industry.

As the speaker sees the future,

The big question is: What industry is going to get this market? Will it be the electrical appliance manufacturers or the gas appliance manufacturers?

If we gas appliance manufacturers don't want to be on the outside looking in, we had better be doing something about it right now and with a real sense of urgency.

What does the fact that America will air condition mean in terms of yearly gas usage? When one-third of the homes in states that make up the Southern Gas Association have air conditioning, and if only half of this one-third used gas, there will be over two million homes with gas air conditioning in this area alone. These homes will use over 130 billion cubic feet of gas annually just for cooling. At 50 cents a thousand cubic feet, this can mean added revenue of over \$65,000,000 a year from this new summer air-conditioning load alone.

On a national basis we are talking about hundreds of millions of dollars of additional revenue annually from gas taken at exactly the right time of year to fill in the summer valley and without

increasing, to any marked extent, the capital investment of the gas utilities.

The battle of these two powerful industries for this summer load and also for the winter heating load, which is inherently tied in with it, is going to be something to watch. However, we of the gas industry must not be idle spectators. We should be right in the middle of this one for our vital self-interests are at stake.

Today, over 95 per cent of all air-conditioning equipment is electrically operated. But the very success of the manufacturers is bringing severe problems to the electric utilities and, at the same time, is presenting the gas industry with an unusual opportunity!

IN the opinion of Mr. Coleman, gas has four immediately discernible advantages over electricity, for air-conditioning purposes:

1. The gas service connection to a house, if it is large enough to heat the house, is certain to be large enough to provide the necessary energy for air conditioning.

2. The gas industry is eager to sell its product—*gas*—in the summertime. Doing so helps level out the demand curve.

3. In many areas gas is far more economical than electricity as an energy source for air conditioning.

4. The gas industry already has efficient, time-proven equipment for house heating. It is both logical and practical to develop equipment that uses gas for cooling as well as heating.

When the electric industry is matched against the gas industry on the same four points, Mr. Coleman finds that the electric industry faces these handicaps:

1. Special wiring and special transformer equipment are frequently need-

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"CAN YOU COME UP HERE A MINUTE? WE NEED A BARITONE."

ed and the electric transmission and generation problems peak throughout the system.

2. The electrical demand comes at the wrong time of the year and peaks when those few blistering hot days come. More and more electric companies already have as heavy a load in summer as in winter even though residential air conditioning is still in its infancy.

3. The electric utilities will have great difficulty in maintaining profitable operations at present rates in view of the large expenditures required for power

generating and transmission equipment to take care of short but high peak air-conditioning loads.

4. The electric industry has no established economical and accepted means of heating the American home. This point is forcing increased interest in the heat pump supplemented by resistance heating. The heat pump is inherently complicated and expensive as compared to our widely accepted gas furnaces and boilers.

Mr. Coleman concludes that there

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should be no sense of hopelessness in the gas industry in regard to air conditioning.

Even if the gas industry should take the lead, he says consolingly, the electric industry would not suffer too drastically, since even in gas air conditioning some auxiliaries such as the furnace blower will use electricity. Mr. Coleman has decided

that the electric industry would like the type of load it would get from gas air conditioning in the summer months.

Mr. Coleman answers the question he has posed: "Who will get the air-conditioning load," as follows: "I sincerely believe the gas industry has a chance to get a substantial share of this market, with at least the possibility of dominating it."

Living with Government

CORPORATIONS really consist of people, and T. Brooke Price, retired vice president and general counsel of the American Telephone and Telegraph Company, says in a recent article in the *Bell Telephone Magazine* that the Bell telephone companies are made up of more people in more places than any other business in America. It is therefore, he says, not surprising that Bell people have to deal with government in more places, under more forms and in more ways, than the people in any other single enterprise. Mr. Price points out that telephone people touch government as it is embodied in the national administration with all its ramifications, in the states, the counties, the cities and towns, the districts, the wards and boroughs in every section of the country.

The retired AT&T official continues:

Year by year, more kinds of government activities present themselves, administered by more officials and agencies. Legislation creates new types of regulation and sets up new governmental authorities. Administration becomes more complex and twines itself more deeply into the structure of American business. The process goes on in some measure in all industry, but nowhere so intensely as with the public service enterprises, and among them nowhere in such sheer magnitude and

geographical scope as with the Bell system.

Living with government is thus an increasingly important part of the telephone career. Whether it is dealing with the local assessor or with the governor of the state, whether it is securing a street-opening permit or testifying at a congressional hearing, the task is part of the never-ending operation of keeping the telephone business in alignment with the complicated structure into which our government has grown.

SINCE government has become such an important factor in the business, the telephone man must deal with it in businesslike fashion, Mr. Price maintains. He must make sure in every case that there is a clear understanding of the facts and an appreciation of the reasons which require the action sought. A favorable reception of what he has to say is of first importance. The writer feels this is best secured by first having gained the confidence of those with whom he deals. But, he cautions, underlying the whole relationship are deeper considerations which must never be overlooked.

On this point, the author amplified somewhat. He writes:

These considerations apply throughout this whole great aspect of our busi-

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ness, manifold and diversified as it has become. From moment to moment and from place to place particular incidents occur and particular problems have to be faced; but no incident and no problem counts as important in itself in comparison to the overwhelming importance of maintaining in all times and places a sound relationship between the Bell system and government. In these days, to live with government harmoniously, effectively, and with self-respect is one of the most serious and delicate responsibilities telephone people must face. It can only be accomplished by holding steadfastly to basic principles.

IN the opinion of Mr. Price, the first of these underlying principles is "to preserve unimpaired the reputation and standing of the Bell companies, nationally and locally, for integrity, responsibility, and fair dealing." He remarks that he can say "preserve" because that is generally the reputation the companies have borne down through the years. It is a fact, he says, that the telephone system stands in the public eye as a great national institution of high character. That reputation is an asset of immeasurable value, which Mr. Price thinks has served the system especially well when other businesses have fallen into disrepute and suffered in consequence through punitive legislation or regulation.

The two remaining principles that the author felt were of special importance he describes as follows:

The second principle is the importance of taking the long view. Public officials change from time to time but the telephone business will still go on. In solving the problems of today we can-

not afford to compromise the future. Any expedient that is wrong for the long pull will not do even for the moment.

An old lawyer gave me some advice in my youth that I shall never forget. He said, "Don't try to get the better of your opponent in a lawsuit by a smart trick. Smart tricks don't pay. It is worth more to be known as the kind of man who doesn't resort to smart tricks."

It is worth more to the Bell system, too, that its representatives shall be known as people of that kind. Lawyers need such a reputation with the courts; telephone people need it with government. What can't be got by square shooting costs more than it is worth.

The last principle in my list is traveling the middle of the road. People come and people go; the sun shines at first on one side of the street and then on the other side. No corporation that must maintain important relations with government can afford to tie up with any party or faction. The much-sought alliance with the political powers of today may secure only disfavor from those in power tomorrow. And just as it is dangerous to plant oneself in any man's political camp, so it is wrong to accept any man in public life as an irreconcilable enemy.

THIS sound approach has led Mr. Price to feel that telephone people get what they are entitled to, ultimately, regardless of the hostility or favor of this person or that one, on the merits of what their business requires in the public interest. He concludes that so long as the telephone companies continue to earn public approbation and support by good service and high standards of conduct, government, by and large, will deal fairly with them.



FPC Statistical Report Omission Assailed

THE decision of the Federal Power Commission to economize by omitting one of its statistical reports for this year is being opposed by the American Public Power Association. The amount slated to be saved is reported to be small. It would total only a few thousands of dollars out of the FPC's annual budget of approximately \$4,500,000.

But the omission of the publication has brought the charge that the agency has made it "impossible to provide comparisons between the publicly and privately owned utilities," thereby impairing the "yardstick" effect of public power operations." This charge has been made by the general manager of the APPA, who said his organization had instructed him to express "vigorous opposition to any curtailment or discontinuation, even temporarily, of the publication of this vital report."

The report, entitled "Statistics of Electric Utilities in the United States — Publicly Owned," heretofore has been issued annually by the FPC. A comparable report, covering the privately owned utilities, also has been published annually.

A spokesman for the commission said recently that a "tentative decision" not to issue the first of these two reports this year has been made. He added that this

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was done because of a slight cut in the agency's budget, but declared that "it will still be issued if we have enough money left."

Meanwhile, the FPC official said, plans for issuing the statistical report on the privately owned utilities are going ahead. Each publication would cover activities for the calendar year 1954. The report covering the private utilities consists of about 705 pages, while the comparable study of public power would amount to only 105 pages.

Farm Electric Purchases Estimated

PURCHASES of electric appliances and equipment by farmers during the period 1956-75 are estimated at \$24 billion, or an average of \$5,300 per farm, the U. S. Department of Agriculture announced last month. The estimates are from a rural market study that the Rural Electrification Administration recently completed. The study contains estimates for the total number of U. S. farms, whether served by REA borrowers or other utilities.

During the next five years the purchases are expected to amount to about \$5.3 billion and during the next ten years to about \$11.3 billion. This would be an average expenditure per farm of about \$1,100 for the 1956-60 period and approx-

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imately \$1,300 for the 1961-65 period.

Results of the study were released in St. Louis, Missouri, at the second annual power use workshop of the Inter-Industry

Farm Electric Utilization Council, a national industry-wide group organized to encourage greater productive use of electricity in rural areas.

California

Air Rapid Transit Proposed

AMULTIMILLION - DOLLAR aerial rapid transit system of rubber-tired, mile-a-minute trains running on concrete trainways sixteen feet above city streets was proposed in Los Angeles last month by Henry K. Norton, eastern transportation executive.

The project, he said, was prepared for consideration by Los Angeles, New York, and San Francisco.

Mr. Norton is chairman of the board of the New York, Susquehanna & Western

Railroad and a former member of the New York Transit Authority.

Almost completely soundless, the aerial railway would consist of 100-capacity passenger cars of stainless steel or aluminum construction that would run on pneumatic tires. The electric-powered railway would operate on the principle of the trackless trolley.

All cars from the suburban areas to the city would be through expresses, with mechanical uncoupling of individual cars at way stations for passenger pickup.

District of Columbia

Fare Hike Review Denied

THE United States Supreme Court last month refused to review an adverse appeals court ruling on the District of Columbia Public Utilities Commission's method of granting a Capital Transit Company fare increase in 1954.

A District attorney had challenged the commission's use of an "original cost" rate base rather than a base reflecting the current value of the company's property in arriving at the increase.

The United States district court ruled in favor of the commission. The attorney,

who had represented a group of riders, then appealed on his own behalf. The United States court of appeals reversed the lower court. In doing so, the appellate court did not pass on the rates themselves. It returned the case to the district court with a request for more detailed information from the commission concerning the method used to determine the fare increase.

The Supreme Court's denial of a review will not affect the fare increases granted in January, 1954, or those ordered by the District commissioners last August.

Indiana

Utility Appeals Rate Ruling

THE Public Service Company of Indiana, Inc., has filed an appeal in circuit court to set aside a recent order of the state public service commission deny-

ing the firm's petition to put into effect a revised schedule of rates, rules, and regulations covering its electric service. The company said in its appeal the new rates are necessary to protect its credit position

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and to attract new investment capital.

In filing the appeal, attorneys for the utility said that the recent rejection of the company's bid for a \$4,000,000 annual rate increase cut the market value of Public Service Company stock by \$15,000,000.

They contended the commission's decision was "unlawful and irregular" and was, in effect, "confiscation" of company property.

Commission Chairman Warren Buchanan said the commission would fight the appeal.

Kentucky

Gas Customers Get Refunds

NATURAL gas customers in Frankfort, Midway, and Versailles will get refunds totaling \$22,566. The refunds were provided in a state public service commission order recently, denying part of a request for rate increases by the old Frankfort Kentucky Natural Gas Company.

The Frankfort firm applied May 24, 1954, for a \$91,990 annual gas rate increase. It put the new rates in effect the following November 1st under bond to assure refunds if any or all the proposed rates were turned down. Last March 23rd, the commission directed that the

rates be reduced by \$47,708 a year. The recent order is for refunds representing the difference between the rates that had been charged pending outcome of the cases and those finally allowed.

Last May the gas firm was bought by Central Kentucky Natural Gas Company and lower rates charged retail customers by Central were put in effect for Frankfort's former customers in Frankfort and at Midway and Versailles.

The Frankfort city attorney subsequently stated that the refunds were not satisfactory and that a rate specialist would be asked to study the commission's order and possibly ask for a rehearing.

Maryland

Transit Purchase Urged

ASPECIAL commission suggested recently that the city should buy Baltimore Transit Company and operate its buses and streetcars as a municipal system. The recommendation was made by a panel of civic leaders named by the mayor to study Baltimore's mass transportation problem.

Controlling interest in Baltimore Transit is now held by National City Lines, a holding company which owns transit systems in many cities throughout the country, including St. Louis.

The mayor has several times taken a stand against municipal ownership of the transit operation, but his special commission said it is "essential and inevitable."

Michigan

State Gets Gas Refund

JUDGE John B. Sanborn of the U. S. circuit court of appeals at St. Louis recently approved a petition by Attorney General Thomas M. Kavanagh and directed that \$715,000 in gas refunds be

turned over to Michigan. The money will go into the state's primary school fund.

In 1948 an assistant attorney general read in a Detroit newspaper that more than 100,000 refunds due Detroit and Michigan gas customers from the Pan-

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handle Eastern Pipe Line Company were unclaimed. The circuit court of appeals had ordered the rebate money held by the court clerk for five years, then to be turned over to the U. S. Treasury.

The Federal Power Commission in 1942 had ordered a Panhandle Eastern rate reduction. The company appealed and continued to charge the higher rate until the U. S. Supreme Court affirmed the reduction in 1945. Panhandle's Michigan customers arranged to have rebates paid directly to their consumers by a court-appointed administrator.

The state public service commission file in the case already had been closed when the assistant attorney general learned about the refunds. He learned that Pan-

handle Eastern had petitioned the court to allow it to use the remaining refund money to pay the cost of distribution. The court had not acted on this petition. There has been a running court fight ever since to obtain modification of the court order so that Michigan instead of the U. S. Treasury would get the money.

The theory of law behind the successful fight was that the money is due to Michigan residents and that it is the duty of the state to protect the property rights of its citizens by marshaling the funds into the state's possession until called for by the former gas users. This was done under Michigan's escheats law, which gives the state property which no individual can claim.

Missouri

State Approves Gas Plant

THE state public service commission last month authorized Central West Utility Company to build and operate a \$170,000 liquefied petroleum gas plant in Clay county to help meet a critical gas shortage in its operating area.

The plant will be constructed in an area that Kansas City formally takes over in 1959, but the utility said the area now is rural in character and the plant is not expected to be a permanent one. Kansas City had protested the construction because the plant site is planned for residential purposes after the area becomes a part of the city. The commission declared, however, that "in view of the immediacy of the need which obtains in this critical situation, the commission does not consider that the objections of the city of Kansas City are substantial."

The new plant will be capable of furnishing up to 2,000,000 cubic feet of gas daily to add to the company's present quota from Panhandle Eastern Pipe Line

Company. The utility told the commission the move would not require any adjustment of appliances.

Suit against Underground Gas Storage Filed

SUIT for an injunction to prevent Laclede Gas Company from using underground gas storage facilities north of Florissant was filed in United States district court last month by Collins Brothers Oil Company of Mount Vernon, Illinois. The suit also named the state public service commission as a defendant.

The oil company alleged that the Missouri Underground Storage Act is illegal, and that Clayton Circuit Judge Fred E. Mueller's action in approving condemnation of land in the Florissant area for gas storage purposes was also illegal.

The suit sought a temporary injunction until the case is heard and alleged there was danger in such storage. Collins Brothers Oil Company has interests in the area of the underground storage facilities.

New Jersey

Ruling Given on Utility Rate Counsel

NEW JERSEY's attorney general has the right under the law to designate rate counsel to represent the public interest at proceedings involving any utility company application for a rate increase, it was ruled last month in Trenton by Superior Court Judge Ralph Smalley.

The opinion was regarded as a victory for the state in its contention that a utility is obliged to compensate rate counsel not only for services in connection with proceedings before the state public utilities commission, but also for work on appeals from commission decisions.

Judge Smalley ruled in a suit brought by State Treasurer Archibald S. Alex-

ander against the New Jersey Power & Light Company for a declaratory judgment after the company contested the payment of fees in the amount of \$3,683 to State Senator Wesley L. Lance, and Joseph Harrison, rate counsel. The company argued it was obliged to pay the state treasurer only the amount due rate counsel for services in the original commission proceedings, not the appeal.

Under New Jersey law, a utility firm applying for a rate increase must pay the compensation of rate counsel up to a maximum tenth of one per cent of its revenues in the preceding year.

New Jersey Power & Light's application for a rate increase was denied in 1953, and the denial was affirmed on appeal.

Washington

Co-op Customers Get Rate Cut

THE Inland Power & Light Company announced recently that about 7,300 users of electricity in the Inland Empire would get a reduction in rates, effective December 1st. The new lower rates apply to all members of the electric service co-operative getting service under the farm and home rate schedule.

Inland operates in Pend Oreille, Spokane, Whitman, Garfield, and Stevens counties in Washington and Bonner county in Idaho.

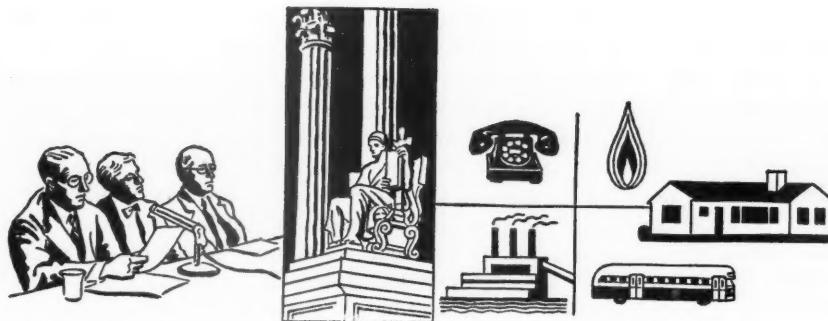
New schedules cut the minimum monthly charge from \$1.80 to \$1.20 for 30 kilowatt-hours, a one-third reduction. Cost of the next 10 kilowatt-hours will drop from six cents to four cents each. Other parts of the rate schedules remain the same, including the final step of three-fourths of a cent per kilowatt-hour over 300 a month.

Private Power Wins

STEVENS county voters decided last month to sell their public power facilities to the Washington Water Power Company, marking the first time voters of a public utility district in the state have approved such a move. The vote was 5,009 to 2,028 in favor of selling the facilities of the Stevens County Public Utility District No. 1 to WWP for \$2,905,000. A 71.2 per cent majority voted in favor of selling the facilities to the private power firm. A 60 per cent majority was required to pass.

The PUD cannot be formally dissolved under Washington state law, but commissioners have agreed not to start condemnation proceedings for at least another four years.

The PUD's properties have been serving 2,350 customers in the area and WWP 2,900 customers.



Progress of Regulation

Regulatory Trends

THE liberalized depreciation provisions of § 167 of the Internal Revenue Code of 1954 were enacted in recognition of the fact that property actually depreciates more and contributes more to income in its early years of use than in the years immediately preceding retirement. The commonly used straight-line depreciation method results in the same depreciation charge on a property unit each year. The declining-balance method and the sum-of-the-years' digits method (also referred to as the digits method) result in larger charges against a property unit during the early years. Congress permitted more rapid depreciation by using these methods in order to allow depreciation deductions for income tax purposes in accordance with economic reality.

Rapid Depreciation Problem for Regulators

How to account for the more rapid depreciation and the related income tax effect and how to treat these deductions in rate making are the problems faced by regulatory authorities. The tax effect of liberalized depreciation, extending over long periods, has been distinguished from the tax effect of accelerated amortization of defense facilities over a 5-year period. The belief that larger depreciation charges in early years merely defer taxes has been criticized. A simple illustration of the effect of rapid depreciation of a single unit of property has been said to be misleading in view of the usual utility situation involving either a growing plant or a static plant experiencing fairly uniform additions and retirements. For such plants total depreciation charges will increase over a period of years even when the declining-balance method or the digits method is used.

Accounting procedures prescribed in regard to accelerated depreciation may be used for accounting purposes only and are not controlling for rate-making purposes, security issue purposes, or any purposes other than accounting. This

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observation was made by the Indiana commission in the Indiana & Michigan Electric Company Case (7 PUR3d 26, 31).

A depreciation rate allowed by the government for income tax purposes is not necessarily the proper rate to be allowed for rate-making purposes. This view was expressed by the North Carolina supreme court in a case involving Southern Bell Telephone & Telegraph Company (3 PUR3d 307). The court said that for rate-making purposes the government's allowance would ordinarily be excessive, especially in respect to buildings and like permanent improvements. Of necessity, the government is required to adopt somewhat arbitrary rates for estimating allowable deductions, as a result of which property is not infrequently fully depreciated before it is exhausted by its use.

NARUC Committee Views

The NARUC Committee on Accounts and Statistics, in its 1955 report, expressed the belief that the following suggestions were worthy of consideration:

- (a) Permit the amount of liberalized depreciation to be recorded in the accounts and allowed for rate purposes. In theory, this would require higher rates to cover the additional depreciation less the effect thereof on income taxes; or
- (b) Permit additional depreciation to be charged in the accounts and allowed for rate purposes equal to the tax reduction caused by liberalized depreciation. This procedure would have no immediate effect on net income and on rates for service although in the long run it would be favorable to consumers if the additional accumulated depreciation is deducted in determining the rate base; or
- (c) Permit depreciation charges under present practices to be recorded in the accounts and allowed for rate purposes with the tax reduction from liberalized depreciation being reflected in tax expenses. Theoretically, this procedure would pass the income tax reduction on to consumers via lower rates.

The NARUC Committee on Depreciation said that in general it favored the computation of depreciation expense for public utility accounting and rate purposes according to the straight-line method and the recording of income taxes each year at the actual tax liability for that year. However, if by reason of the new tax provisions an additional expense allowance is made by regulatory commissions, it is recommended that the allowance be recorded as depreciation expense—the item with which Congress was dealing. In this way there would be a balancing of interests in that the customer would pay more for depreciation expense but in return would realize an equivalent credit in the rate base.

Commission Opinion as to Depreciation

Differing views of the Florida and Ohio commissions on proper accounting procedures to be followed under § 167 of the Internal Revenue Code of 1954

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are discussed in **PUBLIC UTILITIES FORTNIGHTLY**, issue of November 24, 1955, at page 910. According to the Florida commission, accelerated depreciation is similar to accelerated amortization of defense facilities. A company, under that theory (assuming a constant tax rate), would pay lower taxes while charging maximum depreciation and higher taxes when limited to lesser amounts. The commission said that if a tax reduction, rather than a tax deferral, resulted, it would take a second look at the matter. *Re Gulf Power Co.* September 1, 1955 (10 PUR3d 273). The Ohio commission, however, rejected a claim by a company that there is no difference between accelerated depreciation and the accelerated amortization of defense facilities. The commission concluded that if it authorized the company to credit to an earned surplus account the amounts of tax "savings" or "deferrals," this could be detrimental to sound utility regulation. *Re Ohio Power Co.* September 9, 1955 (10 PUR3d 276).

The Georgia commission gave tentative approval to a proposal by Georgia Power Company that it be authorized to account for liberalized depreciation deductions in the same manner as for accelerated amortization of defense facilities (10 PUR3d 259). The company proposed to use the declining-balance method. An exhibit prepared by the company showed tax savings over future years based on the assumption that regular additions would be made to depreciable plant. The commission concluded that when plant additions in successive years are included, the annual benefits are substantial and should be carefully accounted for. The commission did not subscribe to the company's view that the net result of tax savings under the declining-balance method would be deferral of tax payments the same as in the case of rapid amortization of defense facilities. The continuous nature of additions to property, said the commission, results in the deferral being overshadowed by the effect of depreciation deductions related to other property additions. In view of the complexities of the matter, the commission gave approval to the company's accounting proposal subject to future revision.

Electric companies intending to take advantage of the provisions of the Internal Revenue Code of 1954 were directed by the Indiana commission to handle the resulting deferrals in federal income taxes by accruing depreciation at rates consistent with rates for property not subject to rapid depreciation. During the years of service life subject to rapid depreciation they are to charge and to credit to appropriate accounts amounts in total for each year equal to such deferral of taxes. Commencing with the year in which the deduction of depreciation for federal tax purposes is less than the deduction which would otherwise have been taken, they are to charge and credit to appropriate accounts amounts in total for each year equal to the increase in federal taxes resulting from the lower federal tax depreciation deduction (7 PUR3d 26). The commission said that the rapid depreciation allowed under § 167 has the same effect on income tax deferrals as accelerated amortization of defense facilities and should be treated in generally the same way.

The Michigan commission directed the Detroit Edison Company to account for the effect of rapid depreciation, using the digits method, by setting up a

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special deferred tax account and a special reserve account. The commission acted on the theory that tax reductions in early years are subject to liability for consequent higher taxes in later years and are not available for addition to surplus. The actual effect, said the commission, does not create a windfall but simply serves to defer federal income taxes, since the total taxes over the lives of the properties would be the same (with a constant tax rate) whether the deduction is taken under the digits method, the declining-balance method, or the straight-line method. During the period when the annual allowances for depreciation under the new tax law are more than what would be the allowances for normal income tax depreciation of such properties, the company is to charge to "Provision for Deferred Federal Income Taxes" as a separate subaccount and to credit to "Reserve for Deferred Federal Income Taxes" an amount for each year equal to the reduction in income taxes payable for that year due to the fact that allowances for accelerated depreciation are in excess of what would be allowable for normal income tax depreciation. During the period when allowances for depreciation under the new law are less than what would be allowable for normal income tax depreciation, the company is to charge to "Reserve for Deferred Federal Income Taxes" and to credit to "Portion of Current Federal Income Taxes Deferred in Prior Years," as a separate subaccount, an amount for each year equal to the increase in income taxes payable for that year due to the fact that allowances for accelerated depreciation under the new law for that year are less than the amount that would be allowable for normal depreciation. Re Detroit Edison Co. November 5, 1954.

Later, because of the particular situation of the Indiana & Michigan Electric Company, the same commission, as noted in PUBLIC UTILITIES FORTNIGHTLY, issue of November 10, 1955, page 810, agreed with the company that an annual amount representing the difference in income tax which would have been paid had existing depreciation rates been reported should be charged to "Provision for Deferred Federal Income Taxes" and to "Appropriated Surplus Arising from Deferment of Federal Income Taxes," although the commission staff had preferred to credit the tax deferrals to a special "Restricted Reserve Account." Only 3 per cent of Indiana & Michigan's new electric plant was located in Michigan, and since the Indiana commission had approved the accounting method sought by the company, approval was granted. Other subsidiaries of the American Gas & Electric system had secured the same treatment in Kentucky, West Virginia, and Virginia, and the commission recognized that there was some diversity of opinion on the exact nature of the apparent income tax "savings."

Rulings on Accelerated Amortization

Commission opinions on accounting for accelerated amortization of defense facilities may be considered as background, but distinctions between accounting for such amortization and accounting for depreciation under the new tax law must be kept in mind. Fast amortization of defense facilities were permitted to encourage plant expansion to meet defense requirements. Liberalized

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depreciation under the new tax law, however, is not related to the encouragement of building for defense needs but is related to the actualities of property depreciation, taking into account obsolescence and other factors causing depreciation at a faster rate during the early years of a plant unit.

Several commissions, in prescribing accounting procedure for accelerated amortization of emergency facilities, required the accrual of depreciation on company books at normal rates notwithstanding the fact that for tax purposes the emergency facilities were being depreciated over a 5-year period. They provided for a charge to an account covering deferred income tax and a credit either to an account which constituted a restricted surplus or to an account constituting a reserve for deferred income tax. Later the company, after the 5-year period, would make a charge to an account representing the surplus or reserve and would make a credit to the current federal income tax deferred in prior years. For examples of such action, see the reported decisions by the Federal Power Commission (3 PUR3d 91), the Florida commission (4 PUR3d 91), the Georgia commission (97 PUR NS 88), the Indiana commission (96 PUR NS 51, 2 PUR3d 437), the Massachusetts commission (2 PUR3d 137), and the Missouri commission (2 PUR3d 427).

Accelerated Amortization and Rate Making

The Federal Power Commission did not think that a company permitted to use accelerated amortization of defense facilities over a 5-year period should be required to reduce rates during the amortization period because of the substantial reduction in income tax (2 PUR3d 41). Congress, said the commission, did not forgive but merely deferred the taxes and did not intend that its rapid amortization regulation would result in a cash donation to the particular persons who happened to be customers during the 5-year period.

The Missouri commission, although cognizant of the fact that accelerated amortization of defense facilities conferred a benefit upon the company, declared that passing such tax reductions on to the consumers during the amortization period would confer a windfall on present consumers at the expense of future consumers (2 PUR3d 427). The actual effect of accelerated amortization did not constitute a complete forgiveness of taxes since it simply deferred payment of income taxes to the post-amortization period.

Review of Current Cases

FPC Approval of Rate Contract Precludes Independent Court Action against Gas Company Directors

A DELAWARE court granted a summary judgment for defendants in a stockholder's derivative action for damages

against directors of a natural gas pipeline company for wrongfully modifying a rate and service contract and for paying a gas-

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gathering tax later declared unconstitutional.

Gas Supply Contract

By agreement the Western Natural Gas Company granted its parent, El Paso Natural Gas Company, the right to purchase a specified minimum quantity of gas produced by Western at fixed prices for a 30-year period. About six years later this contract was amended so as to double the rate. It also increased the minimum quantities of gas which Western was obligated to furnish, at the new prices.

The stockholders claimed this new contract was made to benefit the directors rather than El Paso and was consummated as part of a scheme involving the merger of Western Gas with another corporation in which the directors owned a 53 per cent stock interest. The merger made the directors substantial stockholders of the resulting corporation.

FPC Jurisdiction

By a decision of the Federal Power Commission the increased price to be paid for gas by El Paso, not only to Western but also to other suppliers, had been accepted as a proper item of cost to El Paso. Consequently, the increase in gas prices to be paid by El Paso was passed on to customers willing to "foot the bill."

The court did not consider this the usual type of case involving conflicts of interest on the part of corporate directors because of the nature of the business involved and the federal controls which govern the operation of the business. It cited the Phillips Case (3 PUR3d 129) in which it was decided that natural gas producers were subject to Federal Power Commission regulation.

This decision closely followed the Panhandle Case (3 PUR3d 396) in which the

Federal Power Commission adopted the "commodity" charge theory for approving pipeline costs. This accepted, as a rate component of the total cost-of-service charge to consumers, the fair price of gas in the field.

The policy involved in these cases is that the national interest is advanced by a policy which fixes prices for natural gas in the field, and ultimately paid by the consumer, sufficiently high to discourage wasteful consumption and to encourage exploration for and exploitation of new sources of gas. In view of this, the court held that the powers vested in the Federal Power Commission to inquire into subsidiary and affiliate relationships, the objections of stockholders intervening in a rate case, and all other factors which might shed light on the over-all reasonableness of rates, leave no room for independent court action concerning established rates. It concluded that once gas rates become effective, pursuant to Federal Power Commission procedure, further inquiry is foreclosed.

The court concluded that regardless of what words were used to characterize the nature of this stockholder's derivative claim for damages caused by modification of the contract, the plaintiff was actually seeking an inquiry into the fixing of gas rates, a matter which Congress has placed under the jurisdiction of the Federal Power Commission. Furthermore, the court said, in view of the decision in *Montana-Dakota Utilities Co. v. Northwestern Pub. Service Co.* (88 PUR NS 129), in which the Supreme Court held that Congress intended that neither the Federal Power Commission nor the court should have power to grant reparation, there was no residual jurisdiction remaining for independent court action in this type of action, whether based on fraud under the Natural Gas Act or on common

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law fraud, at least where the fraud charged was presumed from interlocking intercorporate relationships.

Gathering Tax

The court also dismissed the claim for damages as a result of payment of gas-gathering taxes imposed by a Texas statute subsequently declared unconstitutional. In the first place, this action was barred by the Statute of Limitations. Secondly,

there was no intimation of self-seeking, fraud, bad faith, or gross unfairness on the directors' part. Evidence indicated that they caused the tax to be paid in the exercise of their honest business judgment. Consequently, the court held that it could not substitute its judgment for that of the directors as to the wisdom or desirability of causing the taxes to be paid without a protest. *Glassberg v. Boyd*, 116 A2d 711.



Escalator Charges Producing Excessive Revenues Unreasonable

UPON complaint by an industrial consumer, the Ohio commission declared unreasonable the fuel escalator charges in an electric company's rate schedule.

The provision was designed to allow a sliding scale of charges based on the cost of coal used in producing electricity and was intended merely to reimburse the company for fuel costs above a specified minimum. In actual operation, however, the escalator clause produced revenue nearly 50 per cent in excess of the cost of coal.

In calculating costs and revenues, the company urged that certain cost factors not provided for in the escalator clause

should be allowed along with the cost of coal. The commission rejected this contention, citing applicable statutory requirements, and said that a sliding scale of charges, such as the one here concerned, must set forth the cost data or factors upon which the rates are based. Other factors not so provided for could not be considered in determining the reasonableness of the charges.

The commission ruled that the clause complained of was unreasonable to the extent that it produced revenues in excess of the cost of coal, and accordingly ordered a downward adjustment in the escalator charges. *Re Cooper Tire & Rubber Co.* Case No. 24,232, October 14, 1955.



Telephone Company Not Required to Continue Fire Alarm System

THE New Jersey Board of Public Utility Commissioners dismissed the complaint of a town against a telephone company which was about to discontinue a fire alarm system. The basis of the complaint was that the company's predecessor had agreed to maintain the system in conformance with the provision of a munici-

pal consent granted the company by the town in a local ordinance passed in 1905.

The company admitted that it had taken over the physical assets of the company which formerly served the town but denied that it purchased the franchise. The company also conceded that it had rendered the service for twenty-six years but

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denied that it had an obligation to continue to do so.

Nature of Service

The unique type of fire alarm systems which the proceeding involved was described as follows:

When a fire is reported by telephone to the central office operator of the New Jersey Bell Telephone Company at Hammonton, the operator takes the details from the calling party and operates a key which sounds the fire sirens. In addition, the operator cranks a magneto which operates the "system of bells," which system activates bells located in the homes of volunteer firemen. When a fireman hears the alarm, he lifts his telephone receiver and is advised by the operator of the location of the fire.

The company was about to convert its telephone system from manual to dial and would not be able to continue the fire alarm system when conversion was complete. This would be particularly true of the "call-back" feature of the system in which the operator gave information as to the location of the fire. Under the dial system all the fireman would hear when he lifted the receiver of his telephone would be the dial tone.

Consideration of Contract

While the board's ultimate decision favored the company, the company's view of the limits on board authority was specifically rejected. The argument of the company was that if it were bound by the 1905 ordinance, the action of the board in requiring the continuance of the service would amount to an order requiring specific performance of a contract. The company continued by citing a 1915 case in which the state court ruled that a commission has no authority to order that a contract be specifically enforced.

The court distinguished the present case from the earlier one because of the difference in type of contract under consideration. The case cited as precedent involved an ordinary contract while the case at hand turned on an agreement resulting in the passage of a franchise ordinance and its acceptance by the utility.

Bar to Conversion Program

The board based its dismissal order on the uniqueness of the service, the absence of a filed tariff covering the service, and the probability that a continuance order might hinder the company's conversion program. *Town of Hammonton v. New Jersey Bell Teleph. Co.* Docket No. 8743, August 24, 1955.



Gas Price-fixing Orders Inapplicable to Royalty Payments By Producers to Contract Holders

THE supreme court of Oklahoma affirmed a clarifying order of the state commission to the effect that its previous orders fixing minimum wellhead prices for natural gas should not apply to the price producers pay royalty owners under private contract. The evidence was deemed sufficient to support the commission's interpretation of these orders.

The commission's power to regulate the taking of natural gas from a common source of supply so as to prevent waste, protect interests of the public, and of all those having a right to produce from the field, includes the power, where necessary to accomplish those purposes, of fixing the price for which all gas produced and marketed from the field shall be sold. But, the

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court said, where such necessity does not exist for abrogating private contract provisions as to the consideration to be paid royalty owners by lessees of land overlaying the common source of supply, for the right to explore for and produce gas from it, that power is without sufficient legal foundation.

The court recognized that the commission's power extends only to the taking of natural gas from the natural reservoir, saying that the commission could protect the individual owner to the extent of seeing that he gets the share of the common reservoir's produce to which he is entitled by his contract or conveyance. Such an owner has a coequal opportunity with all other owners to reduce his share to possession, but this does not mean that his share will be equal to that of other owners having a coequal right to participate in the common reservoir, or that he will get the same price for his share that the others

obtain. The price he obtains for his share of the product may be limited, restricted, or fixed by private contract. The royalty contracts involved in this case were deemed to be agreements of that character.

The only extent to which the commission's price-fixing power has yet been justified, in the court's opinion, is to see that all gas produced and marketed from the natural reservoir brings a uniform minimum price. This can be accomplished under the orders fixing the minimum well-head prices for the natural gas. Under these orders each thousand cubic feet of gas that leaves the reservoir will bring the minimum price fixed by the commission regardless of what price the producers may have already paid or may pay in the future for the right to produce such gas under similar contracts which differ materially from ordinary leases. *Cabot Carbon Co. et al. v. Phillips Petroleum Co. et al.* 287 P2d 675.

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Capital Transit Denied Sufficient Rate Increases to Operate without Loss in Maryland

DIRECTLY after the resumption of operations by the Capital Transit Company following the recent strike by its employees, the company applied to the Maryland commission for authority to increase rates. At the time of resuming service a 3-cent increase in the token fare was secured from District of Columbia authorities.

In this proceeding an equal increase was granted by the Maryland commission for the first two zones in the state. Further increases sought by the company were rejected as unjustified, however, though it was shown that even with the rates requested, operations in Maryland would still be conducted at a considerable loss. "That no rider in Maryland should be re-

quired," said the commission, "to pay a greater increase than does the District of Columbia rider seems reasonable."

The commission indicated, in effect, that the solution of the problem here presented by Capital Transit lies in the establishment of nondiscriminatory and uniform service under joint regulation by the District of Columbia, Maryland, and Virginia. The commission observed that a comprehensive study of the many aspects of the transit situation in the Washington metropolitan area is now being conducted by a joint commission set up by the three jurisdictions concerned, and special attention is being given in the study to the feasibility of joint regulation. *Re Capital Transit Co. Case No. 5431, September 30, 1955.*

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Commission Discretion in Apportioning Cost of Federally Financed Crossings Upheld

THE superior court of Pennsylvania has affirmed commission orders relating to the apportionment of the costs of two rail-highway crossings proposed to be reconstructed.

The use of federal funds was involved in both projects.

Objections to Orders

The Pennsylvania highway department, which appealed the orders, contended that the commission should not have considered the source of the funds used. The court said, however, that the commission is not limited to any fixed rule in apportioning costs but may consider all factors entering into an apportionment. The opinion indicated that even if the use of federal funds was the decisive factor in the allocations made in this case, such allocations were nevertheless within the commission's powers. Its orders made in the exercise of its administrative discretion will be upheld if they are reasonable and in conformity with law.

The highway department also objected to the weight given by the commission to certain federal conditions applicable to the

use of federal funds. The court ruled that such conditions were properly considered by the commission in fixing the division of costs. Moreover, said the court, the commission may consider the purpose and circumstances underlying the grant of federal funds for such projects, including the financial position of the railroads and the relative benefit accruing to them and to users of the highways.

Objections Moot

Finally, the court noted that after these appeals were brought, an agreement was entered into by the state department of highways and the Federal Bureau of Public Roads covering the reconstruction of the two crossings, in order to obtain the use of federal funds. The agreement accepted the orders here appealed from. In these circumstances, the court said, the department could not now question the orders with good grace. It was further observed that the questions sought to be raised in these appeals may have become moot. *Pennsylvania Dept. of Highways v. Pennsylvania Pub. Utility Commission et al.* 116 A2d 855.



Part-time Station Discontinuance

THE Missouri commission authorized a railroad to close an open agency station except during three months of every year. The commission thought that the only real need for an agent at the station was during the fall when soybeans were being shipped.

In a previous application by the railroad, the commission had refused to authorize discontinuance, stating that if future operations should show that experi-

ences had been abnormal and that the public was making little or no use of the station, then, upon proper application, the company would be relieved of the expense of maintaining the station. The company showed, in this proceeding, that the station had been operating each year at a loss. It further showed that practically all of the business transacted required services of an agent only for outbound shipments of soybeans.

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The commission pointed out that the issue in a case of discontinuance was whether or not there is a sufficient public need for the station to warrant continued operation. Operational profits or losses alone do not establish the fact that there is

or is not a public need, said the commission, although the amount of revenue earned is material in determining the use made of the station facilities. *Re Chicago, M. St. P. & P. R. Co. Case No. 13,099, September 12, 1955.*



Interstate Motor Carrier Granted Certificate for Extension into Downtown Business District

AN interstate motor carrier requested the District of Columbia commission to designate discharge and pick-up points from its present terminal to the downtown business section. The company contended that it possessed authority under a certificate from the Interstate Commerce Commission to perform the services proposed and that the only duty resting upon the commission was to designate the routes and stops requested. Evidence of public convenience and need for the services was also introduced by the company.

The commission found that the company's proposed operation was subject to the provisions of § 4 of the Merger Act, which required the company to obtain a

certificate of public convenience and necessity. It refused to treat the application as one for routing of an authorized interstate carrier. The operation proposed would be an extension of the company's lines, said the commission, and would be competitive to some extent with existing bus lines. However, such service was considered necessary and convenient to a large number of passengers making interstate trips. The commission concluded that a protesting carrier would not suffer substantial losses so as to warrant the denial of the proposed service. *Re Parran (Suburban Transit Co.), Order No. 4223, PUC No. 3482, Formal Case No. 446, October 7, 1955.*



Raising of Dam Authorized Despite Objections of City Sewerage Authorities and Landowners

THE Wisconsin commission granted a permit to a power company authorizing it to raise and enlarge the Petenwell dam on the Wisconsin river. The controlling statute allows the raising of dams where the commission finds that it will not violate public rights or "endanger life, health, or property."

The city of Nekoosa, opposing the permit, claimed that any raising of the dam would also raise ground-water levels and impair the operation of its sewerage plant. The commission found, however, that no

"irreparable damage" would result to the plant "such as to violate public rights or to endanger life, health, or property."

Replying to claims by landowners that the permit should not be granted, on the ground that an increase in the level of backed-up water would flood and damage their lands, the commission said that damage to property or the taking of land which inevitably results from flooding by dammed water does not come within the quoted statutory language. The commission further indicated that any damage

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sustained by property owners must be recovered in another forum.

Since these claims were found insufficient to necessitate refusal of the permit, and because the proposed raising of the

dam was found to be in the public interest and otherwise met the requirements of the statute, the commission authorized the project. *Re Wisconsin River Power Co.* 2-WP-1003, October 17, 1955.



Competing Electric Company May Not Complain of Ultra Vires Acts of Co-operative

THE United States court of appeals has upheld a federal district court's dismissal of an electric company's action to enjoin a rural electric co-operative corporation from furnishing electricity to its members in the city in which the electric company operates. It held that only the state could complain that the acts were ultra vires.

The lower court had held, and the court of appeals agreed, that the act of a co-

operative in furnishing electricity to the inhabitants of an annexed area of a city is not illegal, since there is no statutory prohibition against having as members those who reside within municipal limits. It was held to be ultra vires rather than illegal.

Consequently, only the state could bring such an action. *Southwestern Gas & E. Co. v. City of Gilmer, Texas*, 224 F2d 794.



Independent Commission Finding of Justification for Elimination of Conjunctive Billing Not Required

A MUTUAL association of water companies petitioned the California supreme court for review of a commission order relating to electric company rates. Several mutual water companies, which were consumers of electrical energy, also protested the commission's elimination of conjunctive billing within a period of two years.

The protestants claimed that the commission had not made an independent finding of justification for the elimination of the conjunctive billing feature. The electric company, in its application, had originally contemplated a 5-year elimination period.

The court found evidence in the record that the conjunctive billing feature in dispute was unfair and discriminatory as to consumers not entitled to such billing privileges. The commission had found,

and the court agreed, that the 5-year elimination period was too long, and that two years would suffice for irrigation consumers to revise their budgets and arrange for rewiring to consolidate delivery points for single metering.

The court did not agree with the protestants that the commission's findings of justification extended only to the amount of the increased revenue which the company would immediately realize. The commission was not required, said the court, to make an independent finding of justification of increased future revenue, but only to make a finding of justification for the alteration and classification. The alteration and classification itself, which would result in possible increased revenue in 1956, was made in 1954. General findings of justification made by the commission on all new schedules and rates were

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sufficient, whether or not an immediate effect on revenue would be felt.

Time Limit for Rehearing

A procedural point relating to the power of the court to review the commission's order was also raised. A statute made a cause of action arising from a commission order accrue only if an application for rehearing had been made before the effective date of the order.

The petition for rehearing had, stamped on its face, a notation that it had been filed the day after the commission decision was to become effective. It had been served by mail three days before the effective date, but not stamped as filed until after a holiday week end. The court held that the petition had been timely made. *California Mutual Water Companies Asso. et al. v. California Pub. Utilities Commission*, 287 P2d 748.



Court Holds Commission's Allowance of Telephone Company's Payments to Affiliates Not Supported by Evidence

THE nature and extent of a utility's burden of establishing, in a rate case, the reasonableness of its dealings with affiliates, were discussed by the Pennsylvania supreme court in a recent case involving the Commonwealth Telephone Company. A utility, said the court, which includes an ascribed value of interaffiliate transactions in its rate base, has the burden of showing that such transactions are reasonably necessary and that the amounts paid are not in excess of the reasonable cost. The commission was held to have erred in including certain of the company's payments to affiliates in the rate base, or as an operating expense, without requiring the company to meet its burden of proof.

Building Cost

Statements by the company that a building had been constructed at bare cost without added profit and that the price compared favorably with the price of similar work for other telephone companies were not considered by the court adequate to support the allowance of payments made by the telephone company to an affiliate for construction work. Likewise, the absence of evidence that a general office

building constructed by an affiliate was essential or reasonably necessary for the company's efficient operation in the public interest did not permit the inclusion of the cost of the construction in the company's rate base, despite the fact that there was no evidence of fraud or sharp practice.

Vehicles Bought from Affiliate

The commission had included in the rate base the cost of motor vehicles purchased by the telephone company from an affiliate. These motor vehicles had previously been rented. The court found no evidence of the need for, or advantage of, the purchases.

The only evidence of the reasonableness of the cost was that the price paid, being the depreciated book value of the vehicles as reflected in the construction company's account, compared favorably with prevailing OPA prices which were computed on the basis of the vehicle's age and model, regardless of its actual condition. This was not considered sufficient.

Management Fee

The commission had allowed, as an item of operating expense, payments to an

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affiliate for management services. The court noted no proof of the rendition of any managerial, technical, or advisory services. The management corporation owned no property, paid no rent for office space shared with another affiliate, and had no employees or expenses except certain officers' salaries. There was also no evidence that the telephone company received fair value for payments made.

Other Payments to Affiliate

The company had paid an affiliate for additions and alterations to premises leased in an inn owned by one holding and controlling the telephone company and all its affiliates. The court found no evidence of the value of the entire building, the part of such value represented by the leased space, the inn's maintenance expenses, its profit under the lease, and the cost to the telephone company of renting similar facilities from nonaffiliates in the same area.

Payments to an affiliate for trimming trees along the company's pole lines were likewise held to be not supported by evidence of reasonableness or propriety, or the reasonable cost of the work to the affiliate.

The fact that protesting parties had presented no evidence that the additions or construction were improper, unnecessary, or too costly, did not alter the court's

viewpoint. The telephone company itself, and not the protesting parties, had the burden of proving reasonable necessity and cost.

Return Allowance Not Supported by Capital Cost

The commission had found that the fair rate of return for the company was 6.8 per cent. The court was of the opinion that the record did not support the commission's conclusion. For example, the commission had found 4.3 per cent as the cost of debt capital, whereas the utility actually obtained over \$1,000,000 by mortgage bonds at 4 per cent.

Similarly, said the court, the commission ignored the unique financial position of the utility in finding that its current cost of equity capital was 11 per cent. The evidence to support this figure consisted of various averages based on common stock offerings by independent telephone companies during the three preceding years. There was nothing to indicate that the condition of those companies was analogous to that of the company under consideration.

The commission's decision was reversed and the case was remanded to it for further proceedings in accordance with the opinion. *Berner et al. v. Pennsylvania Pub. Utility Commission*, 116 A2d 738.



Remand of Television Channel Case to Federal Communications Commission Because of Partner's Death

A PARTNERSHIP appealed to the United States court of appeals after the Federal Communications Commission had denied its application for a television channel. The commission had awarded the channel to another corporation on the ground that the individual partners had

acquiesced in certain advertising practices of a publishing corporation in which they held stock.

One of the partners had died since the commission decision. The court held that since the commission's findings necessarily required a determination as to the mental

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attitude of the individual partners regarding the advertising practices, the cause should be remanded to the commission with directions to determine the effect of the partner's death upon its decision.

The court pointed out it had the power to remand with directions even though it had not made a decision upon the merits.

This power extended not only to cases where the administrative agency had made inadequate findings, but also to cases where, without the fault of the agency, the state of the record precluded a just result. *Fleming et al. (Anthony Wayne Broadcasting) v. Federal Communications Commission*, 225 F2d 523.



Transit Company's Integrated System Considered in Determining Interurban Fare Increase

THE California commission considered the results of operations for both the interurban portion and the over-all system of a transit company in determining the propriety of an interurban fare increase. The division of operating routes between classes of service was held to have resulted mainly from past history, and to be somewhat arbitrary.

The increased interurban fares authorized were estimated by the commission to produce a return of 5.7 per cent and an operating ratio after taxes of 97.3 per cent on the interurban portion. With the local fares taken into consideration, the system return was estimated at 8.8 per cent and the system operating ratio after taxes at 94.6 per cent. This was considered reasonable.

The commission commented that it

would use original cost of land and the depreciated original cost of other facilities, where such costs could be determined, in estimating the transit company's rate base. No allowance was made for contingent risks.

An allowance for cash working capital was unjustified because company operations provided the requisite amounts.

The commission, in determining depreciation expense, used lives for the vehicles which varied according to age. The fact that older equipment was generally limited to peak-period operation of only a few hours per day was taken into consideration, as well as the possibility of future major changes in motor coach design. *Re Metropolitan Coach Lines, Decision No. 52002, Application No. 36869, September 27, 1955.*

Other Recent Rulings

Town's Water Utility Return. A rate increase calculated to produce a return of 5 per cent on a net book-value rate base was authorized as fair and reasonable by the Wisconsin commission for a town operating as a small water utility. *Re Town of Pence*, 2-U-4460, October 13, 1955.

Carrier Application Unsupported. The Colorado commission denied a private car-

rier permit on the grounds that the applicant failed to meet his burden of showing a need for the proposed service, and that the already unprofitable operations of protesting common carriers would be impaired by additional competition. *Re Butler, Application No. 13624-PP, Decision No. 44654, September 27, 1955.*

Power Contract Valid. In construing a

PUBLIC UTILITIES FORTNIGHTLY

contract subsisting between a public power district and a consumer district, both public bodies, and providing that the former should furnish electricity to the latter at cost of service, the Nebraska district court ruled that the contract did not constitute an unlawful delegation of the discretionary power of the power district to fix rates, nor was it contrary to public policy. *Custer Pub. Power Dist. et al. v. Loup River Pub. Power Dist. et al.* Cases Nos. 9338, 9284, 9339, September 9, 1955.

Freight Classification. In an action by a carrier to recover shipping charges, the United States court of appeals affirmed a lower court holding that scrap aluminum melted down into ingots, though so rudely done as to render the ingots fit only to be remelted for recovery of the base metals, must, nevertheless, be classified as ingots, rather than scrap, for shipping purposes. *Sonken-Galamba Corp. v. Thompson, Trustee, Missouri P. R. Co.* 225 F2d 608.

Fare Increase. A bus company was authorized by the Colorado commission to increase fares where operating losses had resulted from present fares and, if the increase were not granted, the company would be forced to apply for permission to abandon service. *Re Bussard (Trinidad City Bus Service) Application No. 13434, Decision No. 44725, October 13, 1955.*

Transfer of Control of Television Station. The United States court of appeals held that the Federal Communications Commission had not abused its authority in finding that an immediate transfer of control of a corporation owning a television station was necessary for the maintenance or conduct of an existing service and in refusing to postpone the transfer of

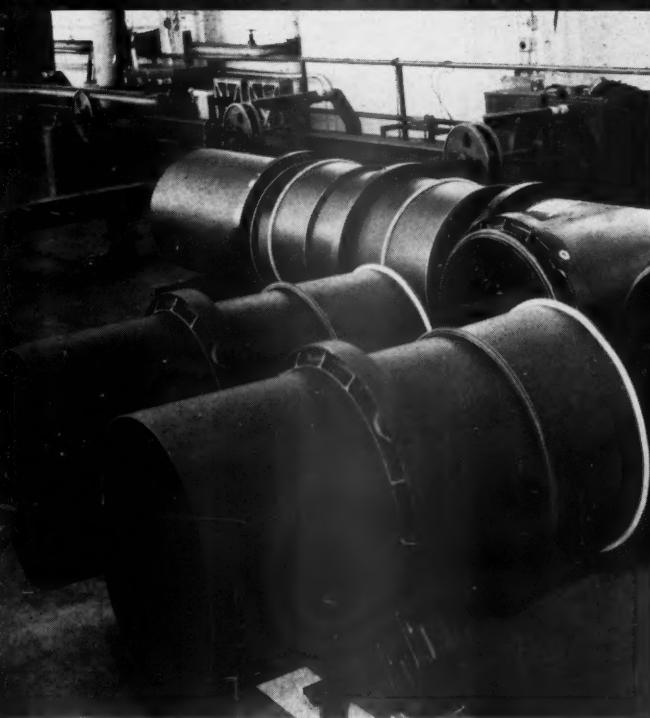
control pending a hearing on protest by a corporation owning another television station. *Van Curle Broadcasting Corp. v. Federal Communications Commission,* 225 F2d 23.

Trackage Not an Extension. The United States district court held that a railroad's proposed trackage to serve an electric power plant which had requested the service even though it was being served by another railroad, was not an extension of the railroad's lines, but an industrial spur, which did not require a certificate of public convenience. *Pennsylvania R. Co. v. Reading Co.* 132 F Supp 616.

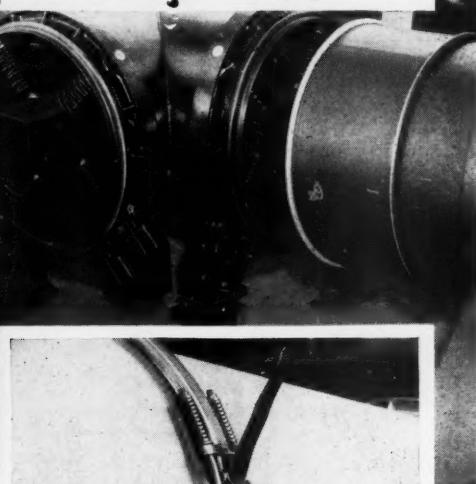
Not an Independent Carrier. A railroad which had leased rails linking two key cities to another railroad, and which had no rolling stock or operational organization, was held by the United States district court to be an integral part of the other railroad's system, not an independent carrier in actual transportation, and, therefore, not eligible to have rates of its own or entitled to a division of rates with the other railroad, particularly where the other railroad's rates on file with the ICC were not joint rates. *Boston & Providence R. Corp. Stockholders v. Interstate Commerce Commission,* 133 F Supp 488.

Court Restricts Certificate. The Mississippi supreme court upheld on statutory grounds its modification of a commission order authorizing certain unrestricted motor freight operations, so as to provide for a restricted type of closed door operation over part of the route, though no issue as to such restricted authority was presented to the commission. *Garrett (Garrett Truck Lines) v. Delta Motor Lines et al.* 82 So2d 577.

Here's Delta-Star's new, improved metal enclosed, isolated phase bus with telescoping covers, ready for shipment.



Thorough testing proves the engineering soundness of Delta-Star's new telescoping-cover bus.



Closeup of telescoping-cover clamping ring with toggle opened. Cover slides back, exposing 2½ ft. bus area. Saves time and money on inspection and maintenance.



Clamping rings securely locked and bolted in position. Spring pressure and circular gaskets maintain tight seal. Use of circular gaskets reduces gasketing by 50%.

Lower costs—install new DELTA-STAR isolated phase bus with Telescoping Covers

Simplified installation and time and money-saving maintenance readily explain the popularity of Delta-Star's new metal enclosed, isolated phase bus.

Installation is simplified by eliminating bolted covers. Longitudinal sections 6 to 8 ft. long are pre-assembled and shipped in lengths as large as your facilities can handle. Telescoping covers are clamped into position and locked with two screws. There are no longitudinal gaskets to install.

Inspection and maintenance is quick and easy. Simply unlock the telescoping covers and slide them back. Spring loaded clamping assures air-tight seal against elements, moisture and dust.

There's no question about cutting installation and maintenance costs when you install the new Delta-Star telescoping-cover isolated phase bus. Investigate soon.

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256,503 Shares

Colorado Interstate Gas Company

Common Stock
(Par Value \$5 per Share)

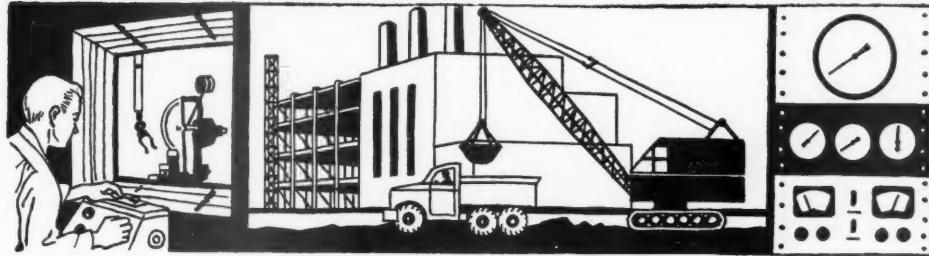
Offering Price \$57.50 per Share

Copies of the Prospectus may be obtained from such of the undersigned and others as are qualified to act as dealers in securities in this State.

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November 18, 1955



Industrial Progress

Nation's Electric Utility Loads Expected to More Than Triple By 1980, According to FPC

THE Nation's electric utility loads in 1980 will be more than $3\frac{1}{2}$ times as great as the 1954 requirements, according to estimates prepared by the staff of the Federal Power Commission.

A report issued by the FPC entitled "Estimated Future Power Requirements of the United States by Regions, 1954-1980," forecasts that annual electric energy requirements will be 1696 billion kilowatt-hours in 1980, compared with 478 billion in 1954. Peak loads in 1980 are expected to be 312 million kilowatts, up 221 from the 90 million kilowatts in 1954.

The report, which covers all electric utilities in the United States, says that the energy requirements and peak demands are expected to grow at about the same rate with only a slight increase in load factor. The report says that electric utility loads in the South and Southwest regions have been the fastest growing in the country, and that future growth for those two regions is expected to be somewhat above the National average.

The three regions which comprise the well-established industrial areas in the East and Midwest have not been growing as fast from the standpoint of electric consumption as the rest of the country over the past 15 years, the report says. Anticipated future growth in these regions is somewhat lower than for other areas, it adds.

California Electric Power Plans New Generating Plant

CALIFORNIA Electric Power Company, Riverside, California, asked the State Public Utilities Commission for authority to construct a 240,000-kilowatt steam electric generating plant near San Bernardino. It said the first unit, of 60,000-kilowatt capacity,

would be started in January, 1956, and completed by July, 1957, at an estimated cost of \$9,700,000, including land.

Additional units would be built as needed, ultimately bringing the plant to full capacity and total cost to about \$34 million, the company stated.

Ohio Power Co. to Build \$125,000,000 Plant

OHIO Power Company announced recently that it is acquiring 500 acres of land along the Ohio River just north of Clarington, Ohio, for a site of a future one-million kilowatt power plant. The plant will represent an investment of \$125,000,000.

Production of Electric Products To Double in 10 Years

THE production of electric products will reach \$35 to \$40 billion annually within 10 years, more than double the current annual rate, representing steadily increasing public demand. Don G. Mitchell, Chairman and President of Sylvania Electric Products Inc., predicted recently.

Speaking at the annual convention of the National Electrical Manufacturers Association, he warned, however, that a greatly increased rate of mechanization will be necessary in order to meet these requirements.

"To meet our opportunities, we must depend upon broader and broader uses of the machine to give our working force the increased skill and productivity which the future will demand," he declared. "If we do not do so, we will be faced with a serious labor shortage. There simply will not be enough people in the working force to do the job that will have to be done."

Because of the rapid growth in the use of electric products, the consumption of electric power will reach an annual rate of a trillion kilowatt hours by 1965, Mr. Mitchell predicted. He

pointed out that this represented a revised estimate of the original prediction of about a year ago that a trillion kilowatt hours would be reached by 1970.

Current predictions are that the electronics industry, with an annual volume today of about \$9 $\frac{1}{2}$ billion, will reach \$15 billion by 1960 and \$20 billion by 1965, he commented, but he indicated that the estimates will be revised upward, especially because of the rapid growth of commercial and industrial electronics.

Revolutionary Development in Coal Handling

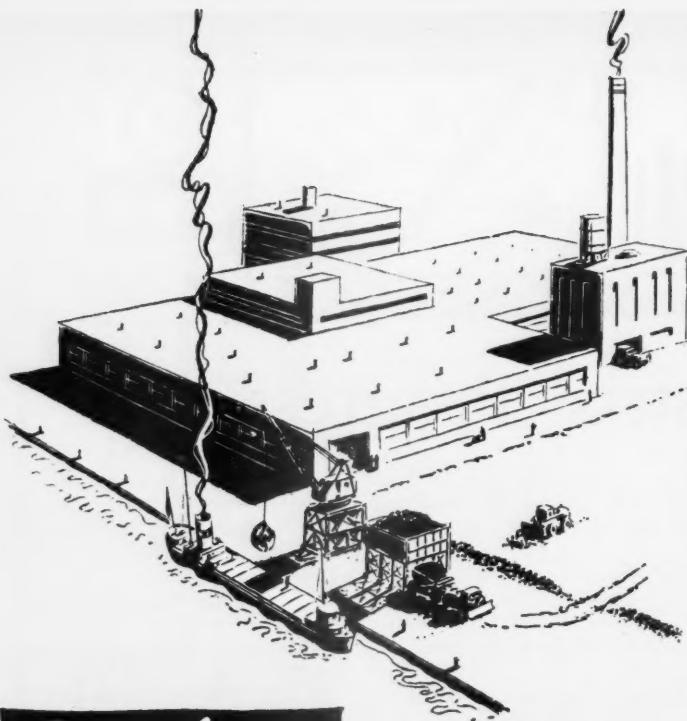
CRUSHED coal can be made to flow from a storage bin like a viscous fluid when air at low velocity is passed upward through the bed. Furthermore, the angle of repose is reduced from 50 to as low as 2 degrees with the horizontal, which means that flat-bottom bunkers can be emptied to a greater degree through an opening in the bottom or side.

Experimental studies on this method were presented to engineers attending the diamond jubilee annual meeting of The American Society of Mechanical Engineers held recently in Chicago. The studies were by Charles H. Marks, Peter R. Broadley and John I. Yellott. Mr. Yellott is director of research and Mr. Broadley assistant director of the Locomotive Development Committee, and Mr. Marks is project engineer of Bituminous Coal Research, Inc.

According to the authors, the studies (Continued on page 28)

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Southern HELPS INDUSTRY

increase Efficiency in Boiler Room Operation

— which of course, helps reduce steam costs. First, SOUTHERN'S constantly expanding operations assure you more diversified coal selection; precise application; faster, more economical shipment, and dependable supply. (SOUTHERN produces in excess of 14,000,000 tons annually.) Secondly, SOUTHERN'S modern methods of washing, drying, dust-treating and grading produce coals precisely conforming to specific industrial requirements. Ash forming and sulfurous impurities are reduced to a practical minimum. Improved energy content delivers more low cost BTUs per ton, and daily laboratory tests maintain size consists in dependable ratios. A trial run will prove the efficient performance of these superior quality coals — and SOUTHERN'S engineers will help you with analyses, selection and application.

SEND FOR THIS FREE BOOK

"Coal and its Combustion" — written by Joseph Harrington, Southern's eminent engineering counsel; noted authority on Coal; its chemistry, preparation, efficient utilization, storing and handling.

YOU CAN RELY ON SOUTHERN'S ENGINEERED INDUSTRIAL COALS

Southern Coal Company, Inc.

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OFFICES IN: LOUISVILLE, MEMPHIS, NASHVILLE, ST. LOUIS
SINCLAIR COAL COMPANY, KANSAS CITY 5, MO., WESTERN REPRESENTATIVE



INDUSTRIAL PROGRESS (Continued)

were initiated to find a convenient and practical way to transfer crushed coal from a locomotive tender to the coal pump feeding a coal fired gas turbine used for motive power. Beyond its special application to the gas turbine locomotive, further development of the process could be extremely valuable to utility and industrial plants where coal is the most economical fuel. Most of the previous studies of handling materials by this fluidization process have been confined to those in the pulverized state.

In general, this initial research indicates that by using aeration, the design of coal bunkers and storage bins can be drastically changed. Aerated coal does not require long hopper bottoms to insure complete clearance of the storage bin. Flat bottoms may be used with side discharge, and it may also be possible to pump the crushed coal in this state to the point of use.

Copies of the paper, No. 55-A-118, may be obtained at 50 cents each from Order Dept., ASME, 29 W. 39th St., New York 18, N. Y.

G-E Bulletin On Light-Water and Oil Moderated Nuclear Test Reactor

THE General Electric Company's Atomic Power Equipment Department has announced a new bulletin detailing operation of its light-water and oil-moderated Nuclear Test Reactor, using heterogeneous-enriched fuel.

The bulletin, G-E-1123, depicts through description, drawings and photographs the design features and construction of the reactor. It also lists many of the uses of the reactor.

Philip Sporn Awarded John Fritz Medal

THE John Fritz Medal, given annually for distinguished scientific or individual achievement, was presented recently to Philip Sporn, president of the American Gas and Electric Company at appropriate ceremonies in conjunction with the 75th Diamond Jubilee annual meeting of the American Society of Mechanical Engineers.

Mr. Sporn's citation reads: "The Medal is awarded to you as Distinguished Engineer, Pioneer in Utility Engineering Practice, Eminent Executive, Human Administrator."

The medal, which in previous years has included as its recipients such illustrious names as Alexander Graham Bell, Thomas Edison, General George Goethals, Orville Wright, Guglielmo Marconi, Herbert Hoover

(Continued on page 30)

To the man who's thinking about buying a new truck:

maybe you're missing something...

➤ And what you're missing is more than "maybe," it's for *sure*—if you haven't yet visited your Dodge truck dealer.

➤ Do you want to miss a *rock-bottom price*? Perhaps you haven't realized that Dodge trucks actually cost *less* than you'd pay for corresponding models of most other makes.

➤ Do you want to miss *power* so high it leads the field? Consider this: with engines of 169 to 175 horsepower, Dodge overpowers *every other leading make of truck* in the low- and medium-tonnage fields.

➤ Surely you don't want to miss the many advantages of

"*Job-Rated*." Because all units from engine to rear axle are engineered and matched for a specific job, the Dodge truck you buy is exactly *right* for your business.

➤ You don't want to miss Dodge safety—which includes the biggest wrap-around windshield of any truck on the road, the shortest turning radius. Or Dodge superior cab comfort . . . Forward Look Styling.

➤ In short, you get a whale of a lot more truck for a good deal less money than you think! Stop in and see your Dodge truck dealer right away—don't miss *anything*!

DODGE Job-Rated **TRUCKS**
WITH THE FORWARD LOOK ➤

INDUSTRIAL PROGRESS—(Continued)

and Vannevar Bush, is presented annually by the John Fritz Medal Committee. Membership of the committee is made up of representatives of the American Society of Civil Engineers, American Institute of Electrical Engineers, American Institute of Mining and Metallurgical Engineers, and the ASME.

In his response, Mr. Sporn accepted the Medal in the name of "the innumerable colleagues in the field in which I have labored . . . without whose work, the humble no less than the great, my own efforts could have come to nothing."

A-C Releases Utility Promotion Booklet

"THE Ghost Town That Came to Life," a new 16-page, four-color pictorial story on electricity is being made available to utilities by Allis-Chalmers Manufacturing Company.

Besides providing a pictorial presentation on the generation, transmission and distribution of electricity, the booklet touches on the need for adequate wiring.

The booklet has space for an im-

printed message and is intended for use in the community relations programs of utilities. It is suitable for use as a direct mail piece to customers or as a give-away by meter readers, as an educational supplement for students and young people's groups, or for distribution at shows and expositions.

1956 Better Copy Contest

PLANS for the 1956 Better Copy Contest, sponsored annually by the Public Utilities Advertising Association, are under way, with chairmen selected to head up the contest's 22 classifications, according to Warren W. Widenhofer, public relations director of Indiana & Michigan Electric Company, Fort Wayne, Ind., contest chairman.

The 1956 contest will judge advertising produced in 1955. Entries will be submitted during January, with the deadline for entries set as February 1 with the exception of annual reports, which must be submitted for judging by April 2. Winners will be awarded certificates during PUAA's annual

convention slated for Philadelphia May 10-11.

The PUAA-sponsored contest has achieved the distinction of being the oldest national advertising contest. It has been conducted for 33 consecutive years. The contest is open to PUAA's nearly 450 members as well as gas, electric and transportation utilities throughout the United States, Canada and Hawaii who are not members.

Rules for the contest will be mailed to all utility companies during the first part of December to give all companies adequate time to prepare entries for competition. Winning entries will be assembled in an "Awards Blue Book," copies of which will be available for purchase in May.

PP&L Continues Scholarship Program; Six More to Be Awarded in 1956

WITH continuation of Pennsylvania Power & Light Company's program of educational assistance, six more area young people next year will join the 13 already studying in Central Eastern

(Continued on page 32)

This is under no circumstances to be construed as an offering of these securities for sale, or as an offer to buy, or as a solicitation of an offer to buy, any of such securities. The offer is made only by means of the Prospectus.

NEW ISSUE

\$30,000,000

Michigan Consolidated Gas Company

First Mortgage Bonds, 3½% Series due 1980

Dated November 15, 1955

Due November 15, 1980

Price 102.526% and accrued interest

Copies of the Prospectus may be obtained from the undersigned only in those States in which the undersigned may legally offer these securities in compliance with the securities laws of the respective States.

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November 17, 1955

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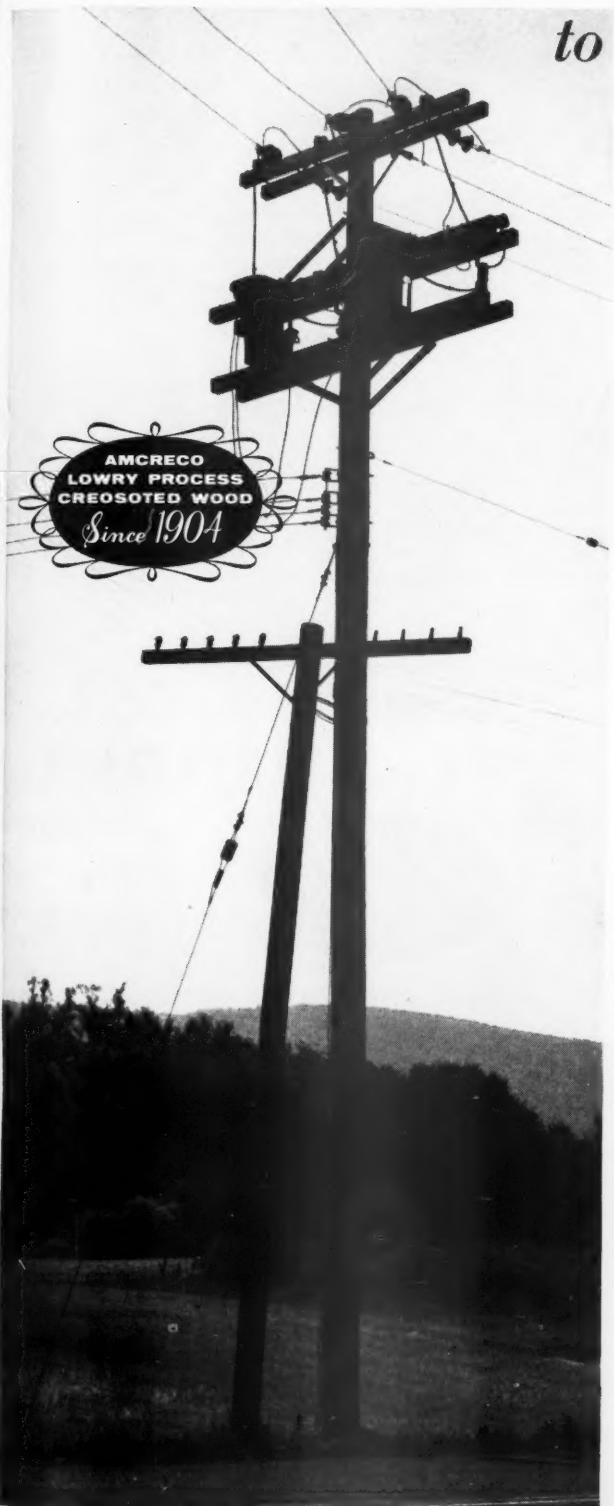
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The best way to give

LONGER SERVICE LIFE

to wood products



The surest method of prolonging and strengthening the service life of wood products is by pressure treating them in creosote. Poles, crossarms, conduit and other construction woods treated in creosote have lasted for years and years, with great strength throughout the life of the wood, and with high resistance to fungi, borers, insects and all natural enemies of wood.

But as effective as creosote may be, it still has to be applied properly for maximum results. That's where the American Creosoting Company enters the picture. Amcreco's creosoted materials have undergone the test of time, and their record of long, long years of service proven.

Since its inception, over fifty years ago, the American Creosoting Company has been directly concerned with improving the quality of creosote treatment. Amcreco's continuous program of research and development has brought improvements and refinements in the basic creosoting process. *Amcreco's pressure treatment creosoting methods are more effective than ever.*

Learn for yourself what these improvements can do for you. Take advantage of our half a century of experience. Write your nearby Amcreco sales office. Find out how you can receive the finest in treated wood products plus the service to go with it!

AMERICAN CREOSOTING COMPANY

Shreveport Creosoting Company
Colonial Creosoting Company
Federal Creosoting Company
Indiana Creosoting Company



Georgia Forest Products Company
Gulf States Creosoting Company
Georgia Creosoting Company
Kettle River Company

LOUISVILLE 2, KENTUCKY
12 FIELD SALES OFFICES TO SERVE YOU

INDUSTRIAL PROGRESS—(Continued)

Pennsylvania colleges on PP&L scholarships, according to Chas. E. Oakes, president of the utility.

As in past years, PP&L pays \$500 per year toward the tuition of each scholarship winner. In recognition of the fact that tuition payments do not cover the institution's full cost of educating the student, an additional \$500 is paid to the college or university he or she attends. Competition is open to young people whose parents are residents of the 10,000-square-mile area served by the utility or its subsidiaries, including The Scranton Electric Company. At least one scholarship will be made available to the son or daughter of an employee of the company or its subsidiaries.

In announcing continuation of the program, Mr. Oakes pointed out that as the operations of business and industry become more and more complex, more college-trained young people are needed. Competent young people with college ability, he added, should be encouraged to continue their education. One aim of the PP&L program is to encourage more of Central Eastern Pennsylvania's capable

young students, who otherwise might not have the opportunity, to further their schooling.

That part of the PP&L plan that provides assistance to the colleges has been incorporated into the program in order to help the independent colleges.

Dravo Piping System in New Florida Power Plant

THE piping system for a new generating unit at Florida Power Company's Suwanee River plant will be furnished and prefabricated by Dravo Corporation, Pittsburgh, Pa.

This new unit, now under construction near Ellaville, Florida, will more than double the Suwanee river plant's present capacity and add 70,000 KW net capability to their system. Powered by a 600,000 pound/hour steam generating unit, the turbine generator will operate on 1450 lb. steam at 1000°F. with reheat to 1000°F. Dravo will fabricate the main, intermediate and low pressure steam piping for the unit.

The new station unit which was designed by Black and Veatch, Consult-

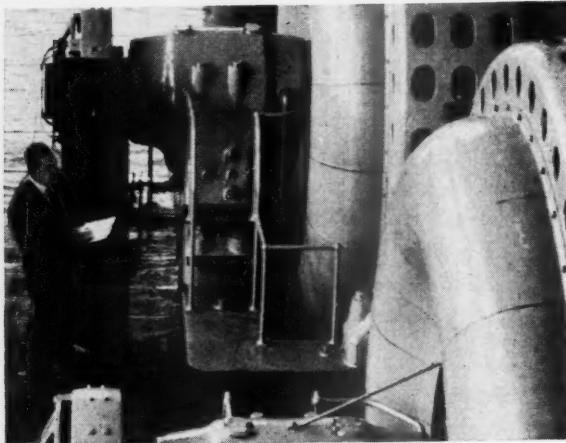
ing Engineers, Kansas City, Missouri is scheduled for completion by late 1956. When completed it will bring Florida Power's net system generating capability to 600,000 kilowatts.

Cleveland Trencher Bulletin Describes Complete Line

THE complete line of Cleveland trenchers and backfillers—eight models for a wide variety of applications ranging from small urban trench jobs to huge cross-country pipelines—is described in a 4-page illustrated bulletin newly published by the Cleveland Trencher Company.

The bulletin provides readers with a quick, convenient comparison of the capacities, specifications and dimensions of Cleveland's six trencher models and two backfiller models. Text enumerates special Cleveland design and construction features incorporated in each model.

Copies of the Bulletin (No. S-120) can be obtained without charge from the Cleveland Trencher Company, 20100 St. Clair ave., Cleveland 17, Ohio.



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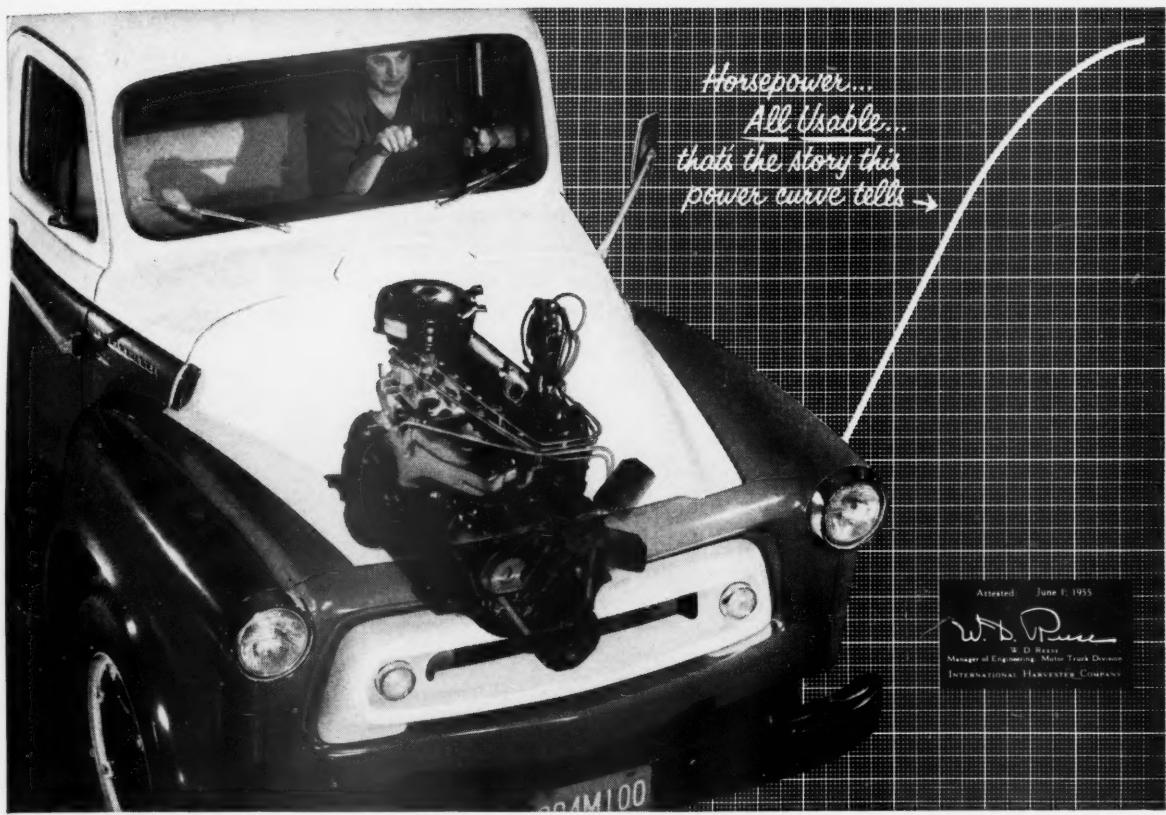
This year, simply fasten a Matthews Inventory Tag to each item of capitalized equipment in your offices and factories. These inexpensive metal or fibre tags can be furnished in plenty of time for your year-end equipment inventory. Write today for complete information.

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PUBLIC UTILITIES FORTNIGHTLY—DECEMBER 8, 1955

It's usable horsepower that counts!



Attested June 1, 1955

W. D. Price
W. D. Price
Manager of Engineering, Motor Truck Division
INTERNATIONAL HARVESTER COMPANY

Internationals give you power without strain at safe, economical rpm to save you the BIG money!

Rated horsepower figures don't tell the whole story of truck performance.

Wise truck buyers want to know *more* than rated horsepower. They want to know what actual *usable* horsepower they are going to get to pull capacity loads at normal, legal speeds—without undue engine strain.

Usable horsepower—that's the point to keep in mind when buying trucks.

INTERNATIONAL engines deliver high usable horsepower at economical, wear-reducing speeds. Because they are built for use in trucks, with no compromise with passenger car design.

You get the usable power you need, plus longest truck life, every driver comfort and convenience. See your INTERNATIONAL Dealer or Branch for trucks exactly right for your job—all-truck built to save you the BIG money.

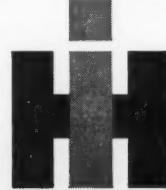
INTERNATIONAL HARVESTER COMPANY • CHICAGO

Many passenger car type truck engines have to rev up to high speeds to pull their loads. They strain at the job—cost big money in wear and repair. INTERNATIONAL all-truck engines turn at relatively low rpm—deliver high usable horsepower at normal road speeds, for peak performance, long life, BIG money savings.



In the world's most complete truck line, there are trucks for every public utility job. Eight light-duty models with Service-Utility body, 3 four-wheel-drive models, 9 medium-duty and 15 heavy-duty chassis. Every other truck type, in variations for every need.

**INTERNATIONAL®
TRUCKS**



***All-Truck Built to
save you the BIG money!***

Motor Trucks • Crawler Tractors • Industrial Power
McCormick® Farm Equipment and Farmall® Tractors

Announcing an authoritative treatise on

RATE OF RETURN

by Ellsworth Nichols

the book you've been waiting for

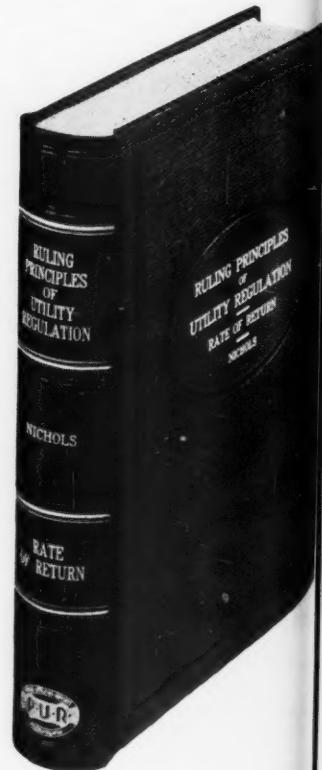
ONE of the most important subjects, if not *the most important subject*, constantly confronting utility managements, regulatory commissions and others concerned, is *the amount of return to be allowed public utility companies and how best to determine that return*. After almost four years of research, study, and analysis, Ellsworth Nichols, Editor of PUBLIC UTILITIES REPORTS and author of other publications on regulation, has completed his new volume, **"Rate of Return."**

Throughout the work, emphasis is placed on the *ruling principles of courts and commissions concerning the various factors to be considered, the weight to be accorded such factors, and illustrations of the application of the principles discussed.*

The volume contains 25 chapters, each dealing with an important phase of the subject—

Theory of Return in Rate Regulation
Confiscation
Right to Fair Return
Amount to be Allowed
Attraction of Capital
Comparable Earnings
Risk or Absence of Risk
Economic Conditions
Intercorporate Relations
Cost of Capital As a Factor
Principles Governing Capital Cost
Economic Conditions Affecting Capital Cost

Capital Costs of Related Companies
Capital Structure
Cost of Debt Capital
Cost of Preferred Stock Capital
Cost of Equity Capital
Financing Costs
Illustrations of Capital Cost
Efficiency of Operation and Management
Character of Service
Rate Base Theory as a Factor
Past Earnings or Losses
Miscellaneous Factors
Operating Ratio



An important aspect of this editorial achievement is Mr. Nichols' review of more than a thousand decisions on "Rate of Return," contained in over two hundred volumes of Public Utilities Reports. This extensive mass of material, together with related materials from other sources, have been condensed into 500 pages under single cover and constitute the *most authoritative and comprehensive treatment of the subject ever published*.

Kept up to date by the addition periodically of pocket supplements containing the latest rulings, decisions and discussions dealing with the subject "Rate of Return."

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PUBLIC UTILITIES REPORTS, INC.—Publishers

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Here's Proof of Performance...

Rochester Gas & Electric Co. reports:

**"Since 1930, no pole replacements
due to preservative failure"**



Any interruption in power service is a serious occurrence for a utility company. That's another major reason why so many utilities guard against one cause of failure by using long-lasting, maintenance-free, pressure-creosoted utility poles.

One such company, Rochester Gas & Electric Company, Rochester, N. Y., tells of its experiences with creosoted poles. Mr. E. B. Robinson, Purchasing Agent, says, "We started using pressure-creosoted pine poles around 1930, and today we have about 150,000 poles in all, and as far as I know, they are doing fine. We specify 8-pound empty cell treatment."

Another Rochester official, Mr. W. B. Kenyon, Electrical Distribution Engineer, also speaks highly of pressure-creosoted poles. "Yes, we started using pressure-creosoted poles back around 1930, and they have served us well. As for replacements due to the failure of the preservative, we have none to report."

For more information on the advantages of pressure-creosoted poles and on the quality preservative, USS CREOSOTE, get in touch with the nearest Coal Chemical sales office or write directly to United States Steel Corporation, 525 William Penn Place, Pittsburgh 30, Pennsylvania.

◀ Mr. W. B. Kenyon with one of the 150,000 pressure-creosoted utility poles.

You can obtain clean pressure-creosoted poles upon specification without sacrificing pole service life.

USS CREOSOTE

SALES OFFICES IN PITTSBURGH, NEW YORK, CHICAGO, CLEVELAND, SAN FRANCISCO AND FAIRFIELD, ALA.

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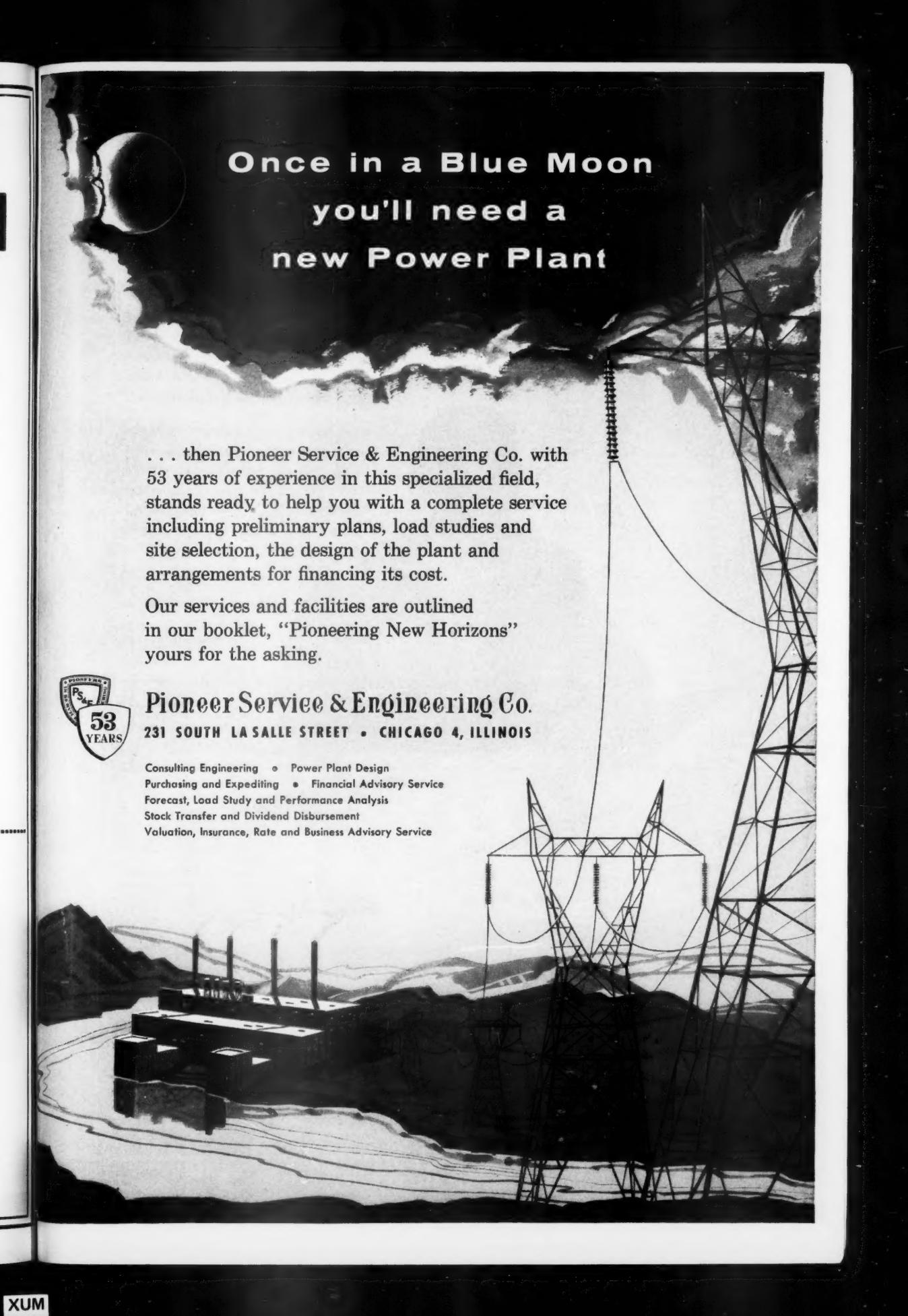
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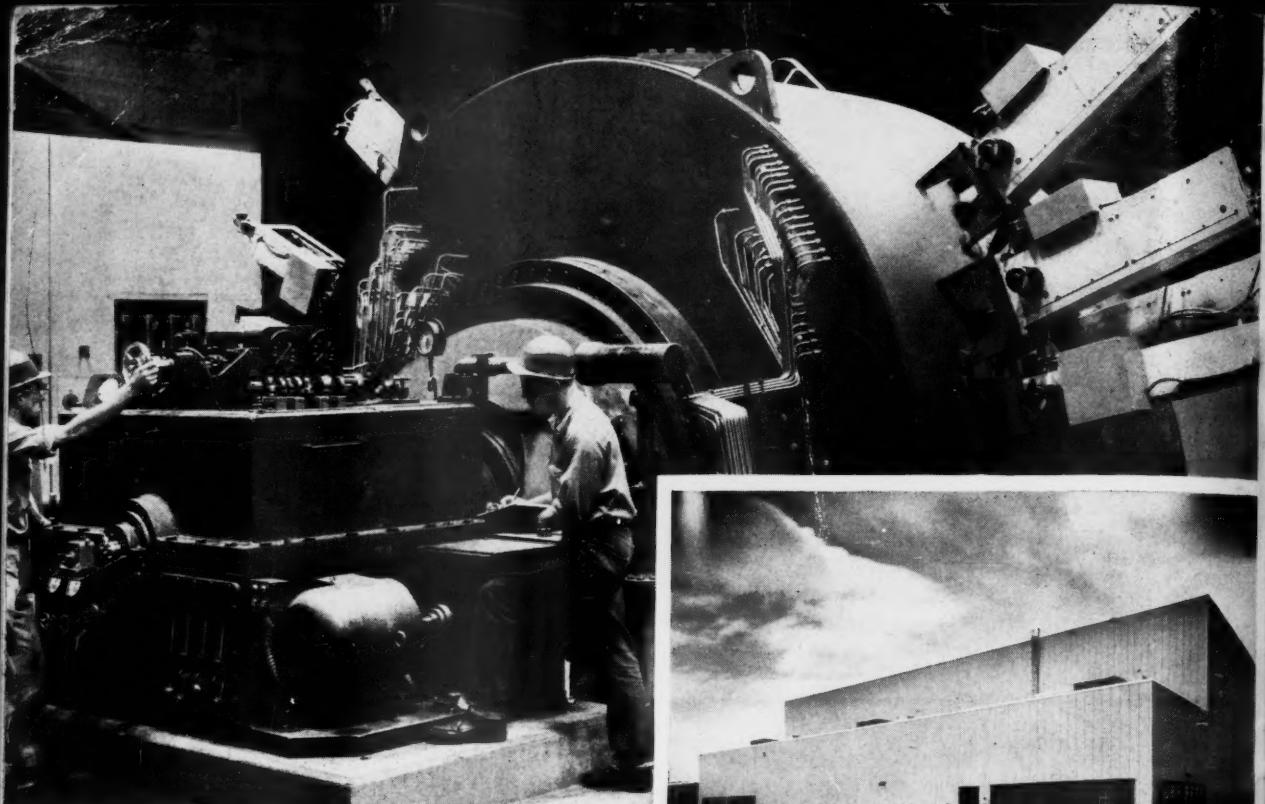
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